

ALAGAPPA UNIVERSITY

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DIRECTORATE OF DISTANCE EDUCATION

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MBA

PAPER- 4B3 MM 4.4

STRATEGIC RETAIL MANAGEMENT

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MBA PAPER- 4B3

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Paper – 4B3

Self Learning Material



DIRECTORATE OF DISTANCE EDUCATION
ALAGAPPA UNIVERSITY
KARAIKUDI-630004
TAMILNADU

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SYLLABUS

MBA

4B3: STRATEGIC RETAIL MANAGEMENT

Unit 1: Strategy and Success Symbiosis: Concept of Strategy- Nature and Significance - Defining strategic intent - Strategic Vision, Mission, Objectives, Structure and Tactics (VMOST) - Strategic Management Process: Strategic Planning, Strategic Execution (Actions & Responses) and Strategic Control - Relationship between a Company's Strategy and its Retail Business Model- Retail Business Strategy and Success Symbiotic Relationship- Role of Retail strategists.

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UNIT 1 STRATEGY AND SUCCESS SYMBIOSIS

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Structure

1.0 INTRODUCTION

"*What we think, know, or believe in is, in the end, of little consequence. The only consequence . . . is what we do*".

(Haines, 1995)

Strategic Management is all about identification and description of the strategies that managers can carry so as to achieve better performance and a competitive advantage for their organization. An organization is said to have competitive advantage, if its profitability is higher than the average profitability for all companies in its industry.

The following caselet will help in understanding the concept of strategic management in a more practical way. Strategic management goes beyond the development of a strategic plan, which includes the pre-planning and strategic planning processes. Strategic management is the deployment and implementation of the strategic plan and measurement and evaluation of the results. Deployment involves completing the plan and communicating it to all employees. Implementation involves resourcing the plan, putting it into action, and managing those actions. Measurement and evaluation

consists not only of tracking implementation actions, but, more importantly, assessing how the organization is changing as a result of those actions and using that information to update the plan.

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A retail strategy is the ultimate plan guiding a retail firm. It impacts the firm's business activities and its response to market forces, such as competition and the economy. Regardless of size or type, the retails should follow the following steps in strategic planning:

1. Identify the category of your business in terms of the goods or services and the company's specific orientation (such as full service or "no frills").
2. Setting long-run and short-run objectives for sales and profit, market share, image, and so on.
3. Identify the target market (such as gender and income level) and needs (such as product and brand preferences).
4. Devise an overall, long-run plan that gives general direction to the firm and its employees.
5. Implement an integrated strategy that combines such factors as store location, product assortment, pricing, and advertising and displays them to achieve objectives.
6. Evaluate the performance regularly and correct weaknesses or problems, when observed.

Caselet on Business Strategy Analysis of Wal-Mart

Sam Walton, a leader with an innovative vision, started his own company and made it into the leader in discount retailing that it is today. Through his savvy, and sometimes unusual business practices, he and his associates led the company forward for thirty years. Today, four years after his death, the company is still growing steadily. Wal-Mart executives continue to rely on many of the traditional goals and philosophies that Sam's legacy left behind, while simultaneously keeping one step ahead of the ever-changing technology and the methods of today's fast-paced business environment. The organization has faced, and is still facing, a significant amount of controversy over several different issues; however, none of these have done much more than scrape the exterior of this gigantic operation. The future also looks bright for Wal-Mart, especially if it is able to strike a comfortable balance between increasing its profits and recognizing its social and ethical responsibilities.

Why is Wal-Mart so Successful? Is it Good Strategy or Good Strategy Implementation? — In 1962, when Sam Walton opened the first Wal-Mart store in Rogers, Arkansas, no one could have ever predicted the enormous success this small-town merchant would have. Sam Walton's talent for discount retailing not only made Wal-Mart the world's largest retailer, but also the world's number

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one retailer in sales. Indeed, Wal-Mart was named "Retailer of the Decade" by Discount Store News in 1989, and on several occasions has been included in Fortune's list of the "10 most admired corporations." Even with Walton's death (after a two-year battle with bone cancer) in 1992, Wal-Mart's sales continue to grow significantly.

The Wal-Mart Philosophy — Wal-Mart is successful not only because it makes sound strategic management decisions, but also for its innovative implementation of those strategic decisions.

Regarded by many as the entrepreneur of the century, Walton had a reputation for caring about his customers, his employees (or "associates" as he referred to them), and the community. In order to maintain its market position in the discount retail business, Wal-Mart executives continue to adhere to the management guidelines developed by Sam. Walton was a man of simple tastes and took a keen interest in people. He believed in three guiding principles: 1. Customer value and service; 2. Partnership with its associates; 3. Community involvement *(The Story of Wal-Mart, 1995)*.

The Customer — The word "always" can be seen in virtually all of Wal-Mart's literature. One of Walton's deepest beliefs was that the customer is always right, and his stores are still driven by this philosophy. When questioned about Wal-Mart's secrets of success, Walton had been quoted as saying, "It has to do with our desire to exceed our customers' expectations every hour of every day" *(Wal-Mart Annual Report, 1994, p. 5)*.

The Associates — Walton's greatest accomplishment was his ability to empower, enrich, and train his employees *(Longo, 1994)*. He believed in listening to employees and challenging them to come up with ideas and suggestions to make the company better. At each of the Wal-Mart stores, signs are displayed which read, "Our People Make the Difference." Associates regularly make suggestions for cutting costs through their "Yes We Can Sam" program. The sum of the savings generated by the associates actually paid for the construction of a new store in Texas *(The story of Wal-Mart, 1995)*. One of Wal-Mart's goals was to provide its employees with the appropriate tools to do their jobs efficiently. The technology was not used as a means of replacing existing employees, but to provide them with a means to succeed in the retail market *(Thompson & Strickland, 1995)*.

The Community — Wal-Mart's popularity can be linked to its hometown identity. Walton believed that every customer should be greeted upon entering a store, and that each store should be a reflection of the values of its customers and its community. Wal-Mart is involved in many community outreach programs and has launched several national efforts through industrial development grants.

What are the Key Features of Wal-Mart's Approach to Implementing the Strategy Put Together by Sam Walton — The key features of Wal-Mart's approach to implementing the strategy put together by Sam Walton emphasize

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building solid working relationships with both suppliers and employees, being aware and taking notice of the most intricate details in store layouts and merchandising techniques, capitalizing on every cost saving opportunity, and creating a high performance spirit. This strategic formula is used to provide customers access to quality goods, to make these goods available when and where customers want them, to develop a cost structure that enables competitive pricing, and to build and maintain a reputation for absolute trustworthiness *(Stalk, Evan, & Shulman, 1992).*

Wal-Mart stores operate according to their "Everyday Low Price" philosophy. Wal-Mart has emerged as the industry leader because it has been better at containing its costs which has allowed it to pass on the savings to its customers. Wal-Mart has become a capabilities competitor. It continues to improve upon its key business processes, managing them centrally and investing in them heavily for the long term payback. Wal-Mart has been regarded as an industry leader in "testing, adapting, and applying a wide range of cutting-edge merchandising approaches" *(Thompson & Strickland, 1995, p. 860)*. Walton proved to be a visionary leader and was known for his ability to quickly learn from his competitors' successes and failures. In fact, the founder of Kmart once claimed that Walton "not only copied our concepts, he strengthened them. Sam just took the ball and ran with it" *(Thompson & Strickland, 1995, p. 859).*

Wal-Mart has invested heavily in its unique cross-docking inventory system. Cross-docking has enabled Wal-Mart to achieve economies of scale which reduces its costs of sales. With this system, the goods are continuously delivered to stores within 48 hours and often without having to inventory with them. Lower prices also eliminate the expense of frequent sales promotions and the sales are more predictable. Cross-docking gives the individual managers more control at the store level.

A company owned transportation system also assists Wal-Mart in shipping goods from warehouse to store in less than 48 hours. This allows Wal-Mart to replenish the shelves 4 times faster than its competitors. Wal-Mart owns the largest and the most sophisticated computer system in the private sector. It uses a MPP (Massively Parallel Processor) computer system to track stock and movement which keeps it abreast of fast changes in the market *(Daugherty, 1993)*. Information related to sales and inventory is disseminated via its advanced satellite communications system.

Wal-Mart has leveraged its volume buying power with its suppliers. It negotiates the best prices from its vendors and expects commitments of quality merchandise *(Thompson & Strickland, 1995).* The purchasing agents of Wal-Mart are very focused people. "Their highest priority is making sure everybody at all times in all cases knows who's incharge, and it's Wal-Mart" *(Vance & Scott, 1995, p. 32)*. "Even though Wal-Mart was tough in negotiating for absolute rock-bottom prices, the company worked closely with the suppliers to develop a mutual respect and to forge long-term partnerships that benefited both parties"

(Thompson & Strickland, 1995, p. 866). Wal-Mart built an automated reordering system linking computers between Procter & Gamble ("P&G") and its stores and distribution centers. The computer system sends a signal from a store to P&G identifying an item low in stock. It then sends a resupply order, via satellite, to the nearest P&G factory, which then ships the item to a Wal-Mart distribution center or directly to the store. This interaction between Wal-Mart and P&G is a win-win proposition because with better coordination, P&G can lower its costs and pass some of the savings on to Wal-Mart.

Sam Walton received national attention through his "Buy America" policy. Through this plan, Wal-Mart encourages its buyers and merchandise managers to stock stores with American-made products. In 1993 annual report, management stated the "program demonstrates a long-standing Wal-Mart commitment to our customers that we will buy American-made products whenever we can if those products deliver the same quality and affordability as their foreign-made counterparts" *(Thompson & Strickland, 1995, p. 868)*.

Environmental concerns are important for Wal-Mart. A prototype store was opened in Lawrence, Kansas, which was designed to be environment friendly. The store contained environmental education and recycling centers *(Slezak, 1993)*. Wal-Mart has also adopted the low-cost theme for its facilities. All offices, including the corporate headquarters, are built economically and furnished simply. To conserve energy, temperature controls are connected via computer to headquarters. Through these programs, Wal-Mart shows its concern for the community.

Wal-Mart has been led from the top but run from the bottom, a strategy developed by Sam Walton and carried on by a small group of senior executives led by CEO David Glass. Although recent growth has led Wal-Mart to add more management layers, senior executives strive to maintain its unique culture. This culture, described as "one part Southern Baptist evangelism, one part University of Arkansas Razorback teamwork, and one part IBM hardware" has worked to Wal-Mart's advantage *(Saporito, 1994, p. 62)*.

Just how Successful is Wal-Mart? — A forecast *(see Appendix A)* of Wal-Mart's income for the period 1995-2000, considering increases of 30.6% in Net Sales, 27.7% in Operating Expenses, and 52.3% in Interest Debt (a level which is below Wal-Mart's historically compounded growth rate of 55.6%) indicates that the company should continue to report gains each year until 2000.

Growth on Sales — According to most analysts and company projections, sales should be approximate $115 billion by 1996, representing an increase of 30.6% as compared to 1995. If the company continues at this pace, the sales should reach $334 billion by the year 2000. The growth-on sales that Wal-Mart reported during the 1980s and the beginning of the 1990s will be difficult to repeat, especially considering the ever-changing marketplace in which it competes. In an interview, Bill Fields, President of the Stores Division, said "Wal-Mart is now

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seeing price pressure from companies that once assiduously avoided taking it on. These include specialty retailers such as Limited, category killers like Home Depot and Circuit City, and catalog companies like Spiegel. I think everybody prices off of Wal-Mart. You've got Limited reaching levels we'd thought they'd never get to. The result is that everyday low prices are getting lower" *(Saporito, 1994, p. 66)*.

In addition, the baby-boomers are reaching their peak earnings years, when financial and personal priorities change. Thus, savings, not spending, will likely to take precedence because most baby-boomers are approaching retirement.

Debt Position — Based on Wal-Mart's position in 1994, which was considered a year of expansion for the company, (Wal-Mart added 103 new discount stores, 38 "Supercenters", 163 warehouse clubs, and 94,000 new associates) interest debt increased by 52.3%. The cost paid by Wal-Mart to finance property plants and equipment forced the company to increase long term debt by 4.6 times during the period 1991-1995. Long term debt for 1995 is $7.9 billion. If Wal-Mart continues its expansion plans based on more debt acquisition at 1994 levels, the company may not attain forecasted gains by as early as 1998.

Operating Expenses — Operating expenses will be a key strategic issue for Wal-Mart in order to maintain its position in the market. The challenge is how to run more stores with less operating expenses. According to Bill Fields, ". . . the goal is to increase sales per square foot and drive operating costs down yet another notch" *(Saporito, 1994, p. 66)*. Trends indicate that the operating expenses have been growing at a rate of 27.7% in recent years. However, Wal-Mart should reap the benefits of its investments in high technology, and be able to operate more stores without increasing its expenses.

Cost of Sales — Cost of sales historically has been equal to the level of sales. If the company continues to take advantage of its buying power, Wal-Mart can expect to lower its cost of sales.

Wal-Mart's future will depend on how well the company manages its expansion plans. For the coming years, the company will need to justify its expansion plans with consistent growth in sales, in order to offset the increases in debt interest and operating expenses.

What Problems are Ahead for Wal-Mart? What Risks? — Throughout the 1980s, Wal-Mart's strategic intent was to unseat industry leaders like Sears and Kmart, and become the largest retailer in the U.S. Wal-Mart accomplished this goal in 1991. But Wal-Mart's current strong competitive position and its past rapid growth performance can't guarantee that the company will remain as the industry leader or maintain its strong business position in the future. Carol Farmer, a retail consultant, told the Wall Street Journal that, "One little bad thing can wipe out lots of good things" *(Trimble, 1990, p. 267)*. Every move in its business operation ought to be well thought-out and executed.

Wal-Mart needs to address two major areas in order to maintain or to capture an even stronger long-term business position:

1. **Single-business strategy:** Wal-Mart's success is mainly based on its concentration of a single-business strategy. This strategy has achieved enviable success over the last three decades without relying upon diversification to sustain its growth and competitive advantages. Given its current position in the industry, Wal-Mart may want to continue its single-business strategy and to push hard to maintain and increase market share. However, there is risk in this strategy, because concentration on a single-business strategy is similar to "putting all of a firm's eggs in one industry basket" *(Thompson & Strickland, 1995, p. 187)*. In other words, if the retail industry stagnates due to an economic downturn, Wal-Mart might have difficulty for achieving past profit performance.

   Also, if Wal-Mart continues to follow Sam Walton's vision of expansion, Wal-Mart will reach its peak position in the very near future. When it does, its growth will start to slow down and the company will need to turn its strategic attention to diversification for future growth.

2. **Social responsibility:** Retail stores can compete on several bases: service, price, exclusivity, quality, and fashion. Wal-Mart has been extremely successful in competing in the retail industry by combining service, price, and quality. However, other merchants may object to Wal-Mart's entry into their community. Because of its ability to out-price smaller competitors, Wal-Mart's stores threaten smaller neighborhood stores which can only survive, if they offer merchandise or services unavailable anywhere else. This makes it very hard for small businesses, such as "mom-and-pop" enterprises, to survive. They, therefore, fight to keep Wal-Mart from entering their locales. Numerous studies conducted in different states both support and criticize Wal-Mart *(Verdisco, 1994)*. Nevertheless, Wal-Mart did drive local merchants out of business when it opened up stores in the same neighborhood. As a result, more and more rural communities are waging war against Wal-Mart's entry into their market. Besides protesting and signing petitions to attempt to stop Wal-Mart's entry into their community, the opposition's efforts can even be found on The Internet. Gig Harbor, a small town in Washington, recently started a World Wide Web page entitled "Us Against the Wal." The town's neighborhood association promised that they "will fight them [Wal-Mart] tooth and nail" (PNA/Island Aerie Internet Productions, 1995/1996).

The increasing opposition indicates that the road ahead for Wal-Mart may not be as smooth as Wal-Mart's annual report would entail. This requires Wal-Mart to rethink its expansion strategy since it would not be profitable to operate in an unfriendly community.

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How Big Will Wal-Mart be in Five Years, if all Continues to go Well? — Before he died, Sam Walton expressed his belief that by the year 2000, Wal-Mart should be able to double the number of stores to about 3,000 and to reach sales of $125 billion annually. Walton predicted that the four biggest sources of growth potential would be the following: 1. expanding in states where it had no stores; 2. continuing to saturate its current markets with new stores; 3. perfecting the Supercenter format to expand Wal-Mart's retailing reach into the grocery and supermarket arena — a market with annual sales of about $375 billion; 4. moving into international markets *(Thompson & Strickland, 1995)*.

Wal-Mart Supercenters represent leveraging on customer loyalty and procurement muscle in order to create a new domestic growth vehicle for the company. With few locations left in the U.S. to put a new Sam's Club or traditional Wal-Mart, the Supercenter division has emerged as the domestic vehicle for taking Wal-Mart to $100 billion in sales. Before the Supercenter, Walton experimented with a massive "Hypermart", encompassing more than 230,000 square feet in size. The idea failed. Customers complained that the produce was not fresh or well-presented and that it was difficult to find the things in a store so big that inventory clerks had to wear roller skates. One of Walton's philosophies was that traveling on the road to success required failing at times.

As a result of the unsuccessful experiment, Walton launched a revised concept: the Supercenter, a combination of discount and grocery store that was smaller than the Hypermart. The supercenter was intended to give Wal-Mart improved drawing power in its existing markets by providing a one-stop shopping destination. Supercenters would have the full array of general merchandise found in traditional Wal-Mart stores, as well as a full-scale supermarket, delicatessen, fresh bakery, and other specialty shops like hair salons, portrait studios, dry cleaners, and optical wear departments. The supercenters would measure 125,000 to 150,000 square feet, and target locations where sales per store of $30 to $50 million annually were feasible.

Walton's prediction was right on target. The Supercenter division more than doubled in size during 1993, then doubled again in 1994. Supercenters, once thought of as risky because of slim profit margins on the food side, will most likely make Wal-Mart the nation's largest grocery retailer within the next five to seven years *(Longo, 1994)*.

Expanding overseas, Wal-Mart moved into the international market in 1991 through a joint-venture partnership with *CIFRA, S.A. de C.V., Mexico's leading retailer.* Since then the company has entered Canada, Hong Kong, mainland China, Puerto Rico, Argentina, and Brazil. The Wal-Mart International Division was officially formed in 1994 to manage the company's international growth. By the year 2000, analysts expect Wal-Mart to be a huge international retailer, with numerous locations in South America, Europe, and Asia.

Conclusion — The ever-changing market presents continuing challenges to retailers. First and foremost, retailers must recognize the strong implications of a "buyers' market" *(Lewison, 1994)*. Customers are being offered a wide choice of shopping experiences, but no operation can capture them all. Therefore, it is incumbent upon management to define their target markets and direct their energies towards solving that specific market's problems. Technology, demographics, consumer attitudes, and the advent of a global economy are all conspiring to rewrite the rules for success. Success in the next decade will depend upon the level of understanding retailers have about the new values, expectations, and needs of the customer. If Wal-Mart continues its customer-driven culture, it should remain a retail industry leader well into the next century.

Source: *http://www.mbaknol.com*

1.1 UNIT OBJECTIVES

After going through this unit, you will be able to:

- Discuss the concept, nature and significance of strategy
- Define the strategic intent and its elements
- Describe the strategic management process
- State the relationship between company's strategy and its retail business model
- Identify the role of retail strategists.

1.2 CONCEPT OF STRATEGY

The word "strategy" is derived from the Greek word "stratçgos"; stratus (meaning army) and "ago" (meaning leading/moving).

Strategy is an action that managers take to attain one or more of the organization's goals. Strategy can also be defined as "A general direction set for the company and its various components to achieve a desired state in the future. Strategy results from the detailed strategic planning process".

A strategy is all about integrating organizational activities and utilizing and allocating the scarce resources within the organizational environment so as to meet the present objectives. While planning a strategy, it is essential to consider that decisions are not taken in a vaccum and that any act taken by a firm is likely to be met by a reaction from those affected, competitors, customers, employees or suppliers.

Strategy can also be defined as the knowledge of the goals, the uncertainty of events and the need to take into consideration the likely or actual behavior of others. Strategy is the blueprint of decisions in an organization that shows its objectives and goals, reduces the key policies, and plans for achieving these goals, and defines the

business the company is to carry on, the type of economic and human organization it wants to be, and the contribution it plans to make to its shareholders, customers and society at large.

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Features of Strategy

- Strategy is significant because it is not possible to foresee the future. Without a perfect foresight, the firms must be ready to deal with the uncertain events which constitute the business environment.
- Strategy deals with the long-term developments rather than routine operations, i.e. it deals with probability of innovations or new products, new methods of productions, or new markets to be developed in the future.
- Strategy is created to take into account the probable behavior of customers and competitors. Strategies dealing with the employees will predict the employee behaviour.

1.3 NATURE AND SIGNIFICANCE

Strategic management as a term and concept is not new. The term was first used in the 1970s, and it meant that a staff of strategic planners more or less thought about strategic programs and then tried to sell them to decision makers. In the 1990's the view of strategic planning and strategic management is much different. Goodstein, Nolan, and Pfeiffer's definition of strategic planning takes us away from the notion that strategic planning is a staff job and focuses us more on a process that requires the senior leaders of an organization to set its strategic direction.

According to Goodstein, Nolan, and Pfeiffer, 1992; strategic management is "the process by which the guiding members of an organization envision its future and develop the necessary procedures and operations to achieve that future".

Gluck, Kaufman, and Walleck, 1982 defines strategic management as the "management system that links strategic planning and decisionmaking with the day-to-day business of operational management".

Strategic Management is a way in which strategists set the objectives and proceed about attaining them. It deals with making and implementing decisions about future direction of an organization. It helps us to identify the direction in which an organization is moving.

Strategic management is a continuous process that evaluates and controls the business and the industries in which an organization is involved; evaluates its competitors and sets goals and strategies to meet all existing and potential competitors; and then re-evaluates strategies on a regular basis to determine how it has been implemented and whether it was successful or does it needs replacement.

Strategic Management gives a broader perspective to the employees of an organization and they can better understand how their job fits into the entire organizational plan and how it is co-related to other organizational members. It is nothing but an art of managing employees in a manner which maximizes the ability of achieving business objectives. The employees become more trustworthy, more committed and more satisfied as they can co-relate themselves very well with each organizational task. They can understand the reaction of environmental changes on the organization and the probable response of the organization with the help of strategic management. Thus the employees can judge the impact of such changes on their own job and can effectively face the changes. The managers and employees must do appropriate things in an appropriate manner. They need to be both effective as well as efficient.

One of the major role of strategic management is to incorporate various functional areas of the organization completely, as well as, to ensure these functional areas to harmonize and get together well. Another role of strategic management is to keep a continuous eye on the goals and objectives of the organization.

Strategic management is important to organizations for several reasons. The following points explain the significance of strategic management in business:

- The strategic management process helps organizations to identify and develop a **competitive advantage**, which is a significant edge over the competition in dealing with competitive forces. For example, Disney has been able to gain a competitive advantage in the family entertainment industry by creating amusement parks, movies, and products based on the renowned Disney characters.
- It provides a sense of direction so that organization members know where to expend their efforts. Without a strategic plan, managers throughout the organization may concentrate on day-to-day activities only to find that a competitor has maneuvered itself into a favorable competitive position by taking a more comprehensive, long-term view of strategic directions.
- It can help highlight the need for innovation and provide an organized approach for encouraging new ideas related to strategies.
- In addition, the process can be used to involve managers at various levels in planning, thus making it more likely that the managers will understand the resulting plans and be committed to their implementation.

According to Fred R. David, research studies indicate that the organizations using strategic management concepts are more profitable and successful than those that do not use. For example, a longitudinal study of 101 retail, service, and manufacturing firms over a 3-year period concluded that businesses using strategic management concepts showed significant improvement in sales, profitability, and productivity compared to firms without systematic planning activities; another study reported that up to 80 per cent of the improvement possible in a firm's profitability is achieved

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through the changes in a company's strategic direction; Cook and Ferris reported that the practices of high performing firms reflect a more strategic orientation and longer term-focus. High-performing firms tend to do systematic planning to prepare for future fluctuations in their external and internal environments. Firms with planning systems, more, closely resembling with strategic management theory generally exhibit superior long-term financial performance relative to their industry.

1.4 DEFINING STRATEGIC INTENT

The foundation for the strategic management is laid by the hierarchy of strategic intent. The concept of strategic intent makes clear WHAT AN ORGANISATION STANDS FOR, Harvard Business Review, 1989 described the concept in its infancy. Hamed and Prahalad coined the term *strategic intent*. A few aspects about strategic intent are as follows:

1. It is an obession with an organization.
2. This obession may even be out of proportion to their resources and capabilities.
3. It envisions a derived leadership position and establishes the criterion which the organization will use to chart its progress.
4. It involves the following:
   - Creating and communicating a vision
   - Designing a mission statement
   - Defining the business
   - Setting objectives

Setting of organizational vision, mission and objectives is the starting point of strategy formulation. The organizations strive for achieving the end results which are 'vision', 'mission', 'purpose', 'objective', 'goals', 'targets', etc. The hierarchy of strategic intent lays the foundation for the strategic management of any organization. The strategic intent makes it clear what an organization stands for. It is reflected through vision, mission, business definition and objectives. Vision serves the purpose of stating what an organization wishes to achieve in the long-run. The process of assigning a part of a mission to a particular department and then further subdividing the assignments among sections and individuals creates a hierarchy of objectives. The objectives of the subunit contribute to the objectives of the larger unit of which it is a part. From strategy formulation point of view, an organization must define 'why' it exists, 'how' it justifies that existence, and 'when' it justifies the reasons for that existence. The answers to these questions lie in the organization's mission, business definition, objectives and goals.

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1.5 STRATEGIC VISION, MISSION, OBJECTIVES, STRATEGY AND TACTICS (VMOST)

VMOST is an acronym for Vision, Mission, Objectives, Strategy and Tactics. It is an internal analysis business framework. It helps in capturing the current strategies of the business organizations and trying to achieve the company goals by assessing its vision, mission, objectives, strategy and tactics.

Table 1.1: VMOST analysis key questions, adapted from Sondhi (1999)

Key questions	Rationale
Vision and mission	
1. What is the overall, ideal, end-state toward which the organization strives (vision)?	Identification of the vision
2. What is the primary activity that the organization performs to achieve the end-state (mission)?	Identification of the mission
3. How are the responses to questions 1 and 2 (vision and mission, respectively) appropriate and relevant to the environment?	Confirmation of understanding of vision and mission by understanding their rationale in terms of industry and market
4. Are the responses to questions 1 and 2 (vision and mission, respectively) explicit or implied? How?	Explanation of how the mission and vision are understood, whether taken from explicit statement of stakeholders, or interpreted via analysis of observed patterns of activities and behaviour
Goals and strategies	
5. What are the basic activities and their rationale by which the organization competes with the industry rivals?	Confirmation of the logic which drives strategic goals and activities through which the goals have been achieved.
6. What goals does the organization set of determine, if it is competing successfully?	Identification of strategic goals
7. What activities does the organization perform to achieve the goals in question 6?	Identification of means by which strategic goals are achieved
8. How do the goals in question 6 support the response to question 1 (vision)	Confirmation of understanding the strategic goals by understanding their rationale in terms of supporting the vision

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Objectives and tactics	
9. What are the measurable objectives that indicate achievement of goals identified in question 6, and what activities does the organization perform to achieve those objectives?	Identification of objectives, the means by which those objectives are achieved, and confirmation of measurability
10. How do the objectives identified in question 9 support the goals identified in question 6?	Confirmation of understanding of tactics and their objectives in terms of the rationale for supporting strategic goals

The key elements of VMOST are discussed as follows:

1. Vision

A vision statement identifies where the organization wants or intends to be in future or where it should meet the needs of the stakeholders in the best way to. It describes dreams and aspirations for future. For instance, Microsoft's vision is "to empower people through great software, any time, any place, or any device." Wal-Mart's vision is "to become worldwide leader in retailing". It is at the top in the hierarchy of strategic intent. It is what the firm would ultimately like to become. A few definitions are as follows:

Kotler defined vision as "description of something (an organization, corporate culture, a business, a technology and an activity) in the future". The definition itself is comprehensive and states clearly the futuristic position.

Miller and Dess defined vision as the "category of intentions that are broad, all inclusive and forward thinking".

The definition lays stress on the following:

- Broad and all-inclusive intentions;
- Vision is the forward thinking process.

A few important aspects regarding vision are as follows:

- It is more of a dream than articulated idea.
- It is an aspiration of an organization. Organization has to strive hard and exert to achieve it.
- It is powerful motivator to action.
- Vision articulates the position of an organization which it may attain in distant future.

In order to realize the vision, it must be deeply instilled in the organization, being owned and shared by everyone involved in the organization.

2. Mission

The mission statements stage the role that an organization plays in the society. It is one of the popular philosophical issue which is being looked into business managers since last two decades.

Definition

A few definitions of mission are as follows:

Hynger and Wheelen defines mission as "purpose or reason for the organization's existence".

David F. Harvey states "A mission provides the basis of awareness of a sense of purpose, the competitive environment, degree to which the firm's mission fits its capabilities and the opportunities which the government offers".

Thompson states mission as the "essential purpose of the organization, concerning "strategic framework particularly why it is in existence, the nature of the business it is in, and the customers it seeks to serve and satisfy".

The above definition reveals the following:

- It is the essential purpose of an organization.
- It answers "why the organization is in existence".
- It is the basis of awareness of a sense of purpose.
- It fits its capabilities and the opportunities which government offers.

A mission statement differentiates an organization from the others by explaining its broad scope of activities, its products, and technologies it uses to achieve its goals and objectives. It talks about an organization's present (i.e., "about where we are"). For instance, Microsoft's mission is "to help people and businesses throughout the world to realize their full potential". Wal-Mart's mission is "to give ordinary folk the chance to buy the same thing as rich people." Mission statements always exist at the top level of an organization, but may also be created for various organizational levels. Chief executive plays a significant role in formulation of mission statement. Once the mission statement is formulated, it serves the organization in the long-run, but it may become ambiguous with organizational growth and innovations. In today's dynamic and competitive environment, mission may need to be redefined. However, care must be taken that the redefined mission statement should have original fundamentals/ components. Mission statement has three main components—a statement of mission or vision of the company, a statement of the core values that shapes the acts and behaviour of the employees, and a statement of the goals and objectives.

Features of a Mission

- Mission must be feasible and attainable. It should be possible to achieve it.
- Mission should be clear enough so that an action can be taken.
- It should be inspiring for the management, staff and society at large.
- It should be precise enough, i.e it should be neither too broad nor too narrow.
- It should be unique and distinctive to leave an impact in everyone's mind.
- It should be analytical, i.e it should analyze the key components of the strategy.
- It should be credible, i.e all stakeholders should be able to believe it.

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3. Objectives

Once the organization's mission has been determined, its objective, desired future positions that it wishes to reach, should be identified. Organizational objectives are defined as the ends the which the organization seeks to achieve by its existence and operation. Objectives represent desired results which the organization wishes to attain. They indicate the specific sphere of aims, activities and accomplishments. An organization can have objectives in terms of profitability and productivity. Objectives provide a direction to the organization and all the divisions work towards the attainment of the set objectives. Objectives and goals are the terms which are used interchangeably.

It is necessary for an organization to assess the process identifying the objectives of each functional area. After accomplishment of these objectives, the overall objectives of the organization are achieved. Organization's mission becomes the cornerstone for the strategy. Objectives are the other factors which determine the strategy. By choosing its objectives, an organization commits itself for these factors.

4. Strategy

Strategy links the destination (vision) with the current reality. Strategy is applicable to the whole company, and answers the question "How will we reach our vision, given current market conditions, competitive scenario, regulatory environment, etc.?" Strategy is narrower than the vision, but broad enough to guide companywide organization structure, hiring, capabilities that must be developed, and so on. Strategy says, "We're going west, but we ran into this Grand Canyon. We can go around to the north or south. Let's choose south."

For example, a company may have a vision "to provide scientifically-proven technology to solve the medical needs of consumers and hospitals." In the 1950s, the strategy may be doing in-house research, hiring and developing scientists, and a compensation program based on discovery. In the 1990s, the same company may have a strategy of acquiring small drug-making companies and buying and protecting patents from other companies. Both strategies will reach the vision, but they are appropriate for different competitive environments, and they have different organization structures, different financing options, and different operational characteristics.

5. Tactics

Tactics are limited in scope, typically just be a part of the company. They're shorter than a strategy. They involve executing given the existing capabilities and resources of the company. Unlike strategy, tactics generally work within the current organization structure, rather than changing the organization. Tactics say, "We're on the south path. Let's travel two miles today." Your tactics probably won't work unless they're generated from a strategy that lays out a consistent philosophy for how your company will compete/win/attract customers in today's market.

Check Your Progress

1. Define strategic intent.
2. What do you know about VMOST?
3. What is a mission statement?

1.6 STRATEGIC MANAGEMENT PROCESS

The strategic management process means defining the organization's strategy. It is also defined as the process by which managers make a choice of a set of strategies for the organization that will enable it to achieve a better performance. Strategic management is a continuous process that appraises the business and industries in which the organization is involved; appraises its competitors; and sets the goals to meet all the present and future competitor's and then reassesses each strategy.

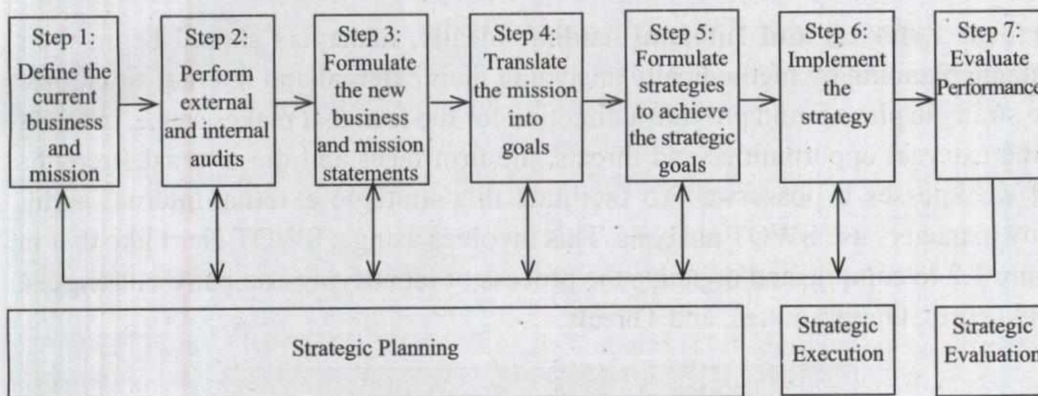


Fig. 1.1: The strategic management process

The following are the key steps involved in strategic management process:

1.6.1 Strategic Planning

Strategic planning is part of the strategic management process. Strategic management entails both strategic planning and implementation, and is "the process of identifying and executing the organization's strategic plan, by matching the company's capabilities with the demands of its environment." Strategic planning comprises (see figure 1.1) the first 5 of 7 strategic management tasks: (1) defining the business and developing a mission, (2) evaluating the firm's internal and external strengths, weaknesses, opportunities, and threats, (3) formulating a new business statement, (4) translating the mission into strategic goals, and (5) formulating strategies or courses of action.

Step 1

Define the Current Business: Every company must choose the terrain on which it will compete—in particular, what products it will sell, where it will sell them, and how its products or services will differ from its competitors'. *Rolex* and *Seiko* are both in the watch business, but *Rolex* sells a limited product line of high-priced quality watches. *Seiko* sells a wide variety of relatively inexpensive but innovative specialty watches with features like compasses and altimeters. Therefore, the most basic strategic decisions the managers make involve deciding "what business" their firms should be in: For instance, in terms of the products or services they'll sell,

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the geographic locales in which they'll sell them, and how they'll distinguish their products or services from their competitors'.

They ask, "Where are we now in terms of the business we're in, and what business do we want to be in, given our company's opportunities and threats, and its strengths and weaknesses?" Managers then choose strategies—courses of action such as buying competitors or expanding overseas—to get the company from where it is today to where it wants to be tomorrow.

Step 2

Perform External and Internal Audits: Ideally, managers should begin their strategic planning by methodically analyzing their external and internal situations. The strategic plan should provide a direction for the firm that makes sense, in terms of the external opportunities and threats, the firm faces and the internal strengths and weaknesses it possesses. To facilitate this strategic external/internal audit, many managers use SWOT analysis. This involves using a SWOT chart like that in Figure 1.2 to compile and organize the process of identifying company's strengths, Weaknesses, Opportunities, and Threats.

Strengths Example : strong research group	**Weaknesses** Example : aging machinery
Opportunities Example : expanding China markets	**Threats** Example : merger of two competitors to form single strong one

Fig. 1.2: SWOT chart

Step 3

Formulate New Business and Mission Statements: Based on the situation analysis, what should our new business be, in terms of what products it will sell, where it will sell them, and how its products or services will differ from its competitors? What is our new mission and vision?

Step 4

Translate the Mission into Strategic Goals: Saying the mission is "to make quality job one" is one thing; operationalizing that mission for your managers is another. The firm's managers need strategic goals. What exactly does that mission mean, for each department, in terms of how we'll boost quality? As an example, WebMD's sales director needs goals regarding the number of new medical-related content providers—vitamin firms, hospitals, HMOs—it must sign-up per year, as well as

sales revenue targets. The business development manager needs goals regarding the number of new businesses—such as using WebMD to help manage doctors' offices online—he or she is to develop and sign. Similarly, *Citicorp* can't function solely with a mission like, "provide integrated, comprehensive financial services worldwide." To guide managerial action, it needs goals in terms of things like building shareholder value, maintaining superior rates of return, building a strong balance sheet, and balancing the business by customer, product, and geography.

Step 5

Formulate Strategies to Achieve the Strategic Goals: Again, a strategy is a course of action. It shows how the enterprise will move from the business it is in now to the business it wants to be in (as laid out by its vision, mission, and strategic goals), given the firm's opportunities, threats, strengths, and weaknesses. The strategies bridge where the company is now, with where it wants to be tomorrow. The best strategies are concise enough for the manager to express in an easily communicated phrase that resonates with the employees.

1.6.2 Strategic Execution

The strategic execution consists of the step of strategy implementation which is discussed below.

Step 6

Implement the Strategies: Strategy implementation means translating the strategies into actions and results—by actually hiring (or firing) people, building (or closing) plants, and adding (or eliminating) products and product lines. Strategy implementation involves drawing-on and applying all the management functions: planning, organizing, staffing, leading, and controlling.

1.6.3 Strategic Evaluation or Control

Step 7

This is the last step of the strategy making process. This is an ongoing process and evaluation and control have to be done for future course of action as well. To get successful results and to achieve organizational objectives, there has to be continuous monitoring of the implementation of strategy. The evaluation and control of strategy may result in various actions that the organization may have to take for successful well being, such actions may involve certain kind of corrective measures concerned with any of the steps involved in the whole process—be it choice for setting mission or objectives. The process of strategy formulation is considered as a dynamic process wherein corrective actions are taken and change is brought in any of the factors affecting strategy.

Evaluation of strategy is done by the top managers to determine whether their strategic choice is implemented in a manner that it is meeting the organization's objectives.

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Evaluation emphasizes the measurement of results of a strategic action. On the other hand, control emphasizes on taking necessary action in the light of gap that exists between intended results and actual results in the strategic action. When evaluation and control is carried out efficiently, it contributes in three basic areas:

- Measurement of organizational process,
- Feedback for future actions, and
- Linking performance and rewards.

The board of directors, the chief executive and other managers all play a very important role in strategy evaluation and control. Control can be of three types:

- Control of inputs that are required in an action, known as feed forward control.
- Control at different stages of action process, known as concurrent control.
- Past action control based on feedback from completed action known as feedback control.

Control is exercised by mangers in the form of four steps:

- Setting performance standards,
- Measuring actual performance,
- Analyzing variance,
- Taking corrective actions.

After evaluation and control, the strategy process continues in an efficient manner. The effectiveness could be assessed only when the strategy helps in the fulfillment of organizational objectives.

1.7 RELATIONSHIP BETWEEN A COMPANY'S STRATEGY AND ITS RETAIL BUSINESS MODEL

Starting a new business requires careful planning to maximize the chances of success. Many small businesses are unable to make profit and fail within the first few years of operation. The terms "business strategy" and "business model" describe related concepts that are key to the processes of planning and managing a business.

1.7.1 Business Strategy

The term "business strategy" describes the methods a business uses achieve its mission and objectives. A business' mission encompasses its overall purpose, core values and long-term goals. A grocery store might have the mission of making profit while providing the best food to customers, minimizing its impact on the environment and promoting strength in the local economy. The company's strategy might involve buying products from local food producers, encouraging customers to bring their own grocery bags, advertising in local newspapers and buying recycled product

packaging materials. A business strategy includes how it deals with the opportunities and threats it faces.

1.7.2 Business Model

A company's business model describes the basic means by which it creates value, delivers value to consumers and collects revenue from customers to make a profit. Business models can vary greatly from one company to another. A local grocery store's business model might involve buying food at wholesale prices and selling it to end consumers at a higher price to make a profit. A website might have a business model based on providing video content to the customers and generating revenues through advertisements placed on the site.

1.7.3 How They Are Related

A company's business model is a part of its business' overall strategy: It is the nuts and bolts behind how the company plans to achieve its goals, such as making a profit. A company can change its business model over time as a part of its profit-making strategy. For example, if a website does not make enough revenues from the advertisements to make profit, managers might decide to implement a new business model, such as selling T-shirts and other goods through an online store, as a strategy to boost profit.

A few retailers assume that a small tinkering with the value proposition is all it takes to adapt to changes in the marketplace. Although it is always necessary to keep the value proposition aligned with shifts in the market, the most successful retailers make significant improvements in their operating model as well, because the value proposition and operating model together are responsible for the entire business model's success. *(See the figure given below)*

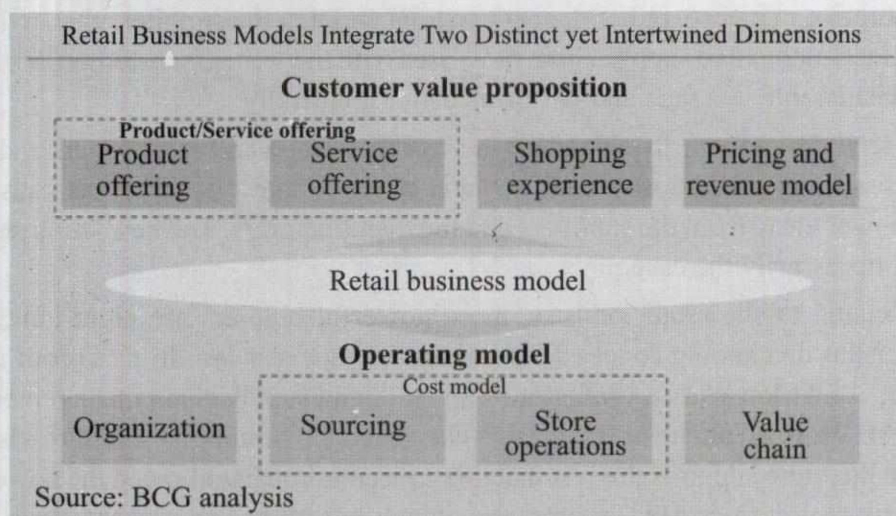


Fig. 1.3: Retail business model

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The value proposition is the differentiating offer the company makes to its customers. It includes the following elements:

- The product or service, including the depth and breadth of assortment, private-label options, and product quality.
- The customer's shopping experience, including the physical layout of the store and the arrangement of merchandise.
- The pricing and revenue model, including the pricing strategy (such as high-low or everyday low prices) and value-added services, such as free delivery.

The operating model supports the value proposition by enabling the retailer to fulfill its pledge to its customers. It includes the cost model (sourcing and store operations), the value chain structure (degree of integration with suppliers and logistics, for example), and the organizational processes.

Most managers' time and resources tend to be focused on changes to only one or two elements of the business model. Few companies think about changing it entirely. *(Reference: BCG Analysis).*

1.8 RETAIL BUSINESS STRATEGY AND SUCCESS SYMBIOTIC RELATIONSHIP

"A symbiotic relationship is a relationship between two entities which is mutually beneficial for the participants of the relationship. Thus there is a positive-sum gain from cooperation. This is the term commonly used in biology to explain the relationship between two entities that need each other to survive and prosper".

A new study by supply-chain researchers at the University of Arkansas shows that the relationship between major retailers such as Wal-Mart and Target and their suppliers is collaborative in nature, rather than adversarial and that the suppliers that actively participate in innovative supply-chain processes with these major customers actually wield considerable leverage and performs better financially.

As large retailers continue to experience increased revenues and greater market share, many researchers and industry analysts have asserted that this trend has caused a shift of power away from the suppliers and the manufacturers. The new study shows this isn't necessarily the case.

"In this vision of the retail industry, more powerful retailers are eight-hundred-pound gorillas demanding concessions and squeezing every last drop of profit from suppliers," said Matt Waller, professor of logistics and supply chain management in the Sam M. Walton College of Business. "The general assumption – and the existing academic literature supports this – is that this concentration has allowed the powerful retailers to exploit their weaker suppliers, which in turn has caused the suppliers' performance to suffer. But our study found that this isn't necessarily the case. The dynamic between the two is a little more complex."

Waller and his colleagues wanted to determine the impact of key retail accounts on supplier performance. To do this, they analyzed financial statements from Walmart, Target and more than 3,400 firms that sell their products to the two major retailers. Specifically, the researchers examined how market shares – both suppliers' and retailers' – influence suppliers' financial performance.

They found that the shift in power from supplier to retailer and the consequent dependence of the former on the latter have not necessarily led to adversarial relationships between the two. The findings provided evidence of collaboration and cooperation between the two groups, due in large part to the rapid adoption of innovative supply-chain processes, such as retailers sharing point-of-sale data with their suppliers. This collaboration has enhanced financial performance throughout the supply chain.

"It's true that suppliers that depend on these key retail accounts for a significant share of their total revenues relinquish some of their leverage in the marketplace," Waller said. "But we found that as these powerful retailers gain market share, their suppliers' performance tends to increase. So suppliers may actually benefit from this dependence, and it could reflect successful strategic coordination rather than power struggles."

Caselet : A Phenomenon Called 'Steve Jobs'

Ask any Techno-freak his list of dream gadgets and the odds are high that the list would be populated by products from Apple. Apple has reached to such an extent that these new-age Geeks would consider it a sin akin to homicide not to know about Apple! No wonder many people may at least find it better to pretend to aspire for Apple products when in reality they may not even know its functionality!

So who was (and is) behind this revolution called the "*Apple Revolution*" which has managed to dominate B-School case study discussions? (Dear Techno freaks this question is not for you!) The person attributed to this revolution was born in February 24, 1955 to an unmarried couple and was later adopted by a lower middle class family and was named *Steven Paul (Steve) Jobs.*



Even before adoption, Steve's adopted parents had to assure his biological mother that he would be sent to college the only silver lining in Steve's life thus far. But

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still he was more interested in the *Hippie* culture than in collegiate education. But some realization either powered by a strong feeling of materialism or his love interest made him pursue entrepreneurship. Whatever be the motive, prospective entrepreneurs have some valuable lessons to learn from his life which we would try to trace.

Lesson 1: Identify your interests and gain knowledge on the same:

When Steve Jobs' family shifted to what is now called as *Silicon Valley,* he was very much engrossed with all the electronics that occupied his neighbour's garage. He did what ever was required to make his interests really matter. He enrolled himself in an electronics class during his high school and learnt quite a lot about it. He was interested so much into the world of electronics that he even once called up Bill Hewlett himself who was the co-founder of HP Corporation to get some spare parts for his summer project! This gives a glimpse into the personality of this entrepreneur who had managed to cash in on his interest in a massive way.

Lesson 2: Earn association with the right people and Lesson 3: Learn to influence them.

Steve Jobs befriended a person called *Stephen Wozniak (also fondly called as Woz, the co-founder of Apple)* who was five years elder to him but shared the same passion for electronics. He was reportedly much more knowledgeable than Jobs in the field of electronics. Woz was already building a computer which Jobs proposed to commercialize. They built an illegal phone hacking device which they called "blue boxes" and Steve was the one who commercialized it and had to stop after almost landing up with the cops.

Woz then landed a job in HP and aimed to work there "all his life". He built a computer called as Apple I which was a great improvement from the existing computer, *Altair*. Jobs was the one who proposed that they should start their own company after (fortunately!) HP was uninterested in Woz's box of plastic. They named their company, *Apple (maybe influenced by Sir Isaac Newton)*. They aimed to sell their Apple I to hobbyists and software enthusiasts. This was the start of the company that was incorporated in April 1, 1976. Jobs managed to influence Woz to resign his "dream job" and they then designed Apple II after their decent first venture. This time though they took the help of an investor by the name *Mike Markkula,* a former Intel employee understandably having ample experience in electronics.

The series of incidents stated above, one of which was even unethical, shows the symbiotic nature of the relationship between Woz and Jobs. It is clear that Woz was the technological brain and Jobs the financial brain in Apple both of which were needed.

His ability to find the right people was even demonstrated at the later stages of the company when he roped in John Sculley, former CEO of Pepsico

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(that their relationship soured later was a different issue!). Jobs once even resigned from Apple and started his own venture by the name NeXT. It was Jobs' ability to attract people (employees and investors alike) that became useful when he started this risky venture.

Lesson 4: Learn from your mistakes and make improvements:

One thing that Jobs realized from the sales pattern of Apple I was that in order to expand, he needed to look beyond hobbyists and enthusiasts. He realized that they should capture the mass market for which he improved the looks of the computer which contributed significantly to the success of Apple II. Moreover Apple I was sold by one bearded Jobs and Woz making it a Hippie product. Apple II was displayed in an exhibition and was sold in a much more suave way.

Jobs was a part of many failures like Lisa, Macintosh (which was only partly successful) which were one of the many reasons for his exit from Apple. But his ability to learn from his failures made him a force to reckon with and contributed to his success in NeXT and Pixar Animations (Jobs' animation company that worked on Disney's famous creations like Toy Story, Finding Nemo, Monsters inc., etc.)

Lesson 5: Believe in you and your product and Lesson 6: Market appropriately:

Steve Jobs comes across as a personality who firmly (and even arrogantly!) believed in himself. This is evident with the way he faced failures from Lisa and Macintosh and still remained unperturbed. He went ahead with his plans to make his products a mass market one even when the former CEO of Apple, John Sculley denounced the plan as a *"lunatic one"* saying that *"High-tech could not be designed and sold as a consumer product. How wrong can you be!"* But Jobs went ahead with the plan and made Apple what it is now.

Jobs concentration on marketing also stands out. He did something very few entrepreneurs had done before. He created a brand called Steve Jobs! He made people to associate him with Apple and he was a regular feature in magazines like Time, Forbes and the like. The name 'Jobs' earned for him and helped him to attract investors even after he was ousted from Apple. This was to the extent that the estranged Steve Jobs' firm NeXT was evaluated at $125 Million when it had not come out with a single product back then!

The brand value of Steve now is news to none. In fact he is growing bigger and bigger from the day he introduced iPod to the day he has introduced iPad.

Lesson 7: Anticipate, if possible even create, trends than simply following them:

Jobs focus on Graphic User Interface (GUI), his thoughts on interpersonal computing when everybody was satisfied with the personal computing, his

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purchase of an animation company and his firm's raging hits like iPhone, iPod and iPad indicate a great ability of his, the ability to foresee trends and needs and to cater to them accordingly. Maybe this is one factor that makes Steve Jobs what he is.

But there are also certain attributes of Steve that a prospective entrepreneur is better of without. One is his alleged high handedness, his erratic behaviours and maybe it would help an entrepreneur to lead a stable personal life unlike Jobs'. It is definitely true that Jobs succeeded in spite of all these pitfalls.

Source: *Docstoc.com*

1.9 ROLE OF RETAIL STRATEGISTS

Strategists are the individuals or groups who are primarily involved in the formulation implementation, and evaluation of strategy. In a limited sense, all managers are strategists. There are persons outside the organisation who are also involved in various aspects of strategic management. They too are referred to as strategists.

The top management function is usually performed by the Chief Executive Officer (CEO) of the organisation, by whatever name called, in coordination with the Chief Operating Officer (COO) or President, Vice-Presidents, divisional and departmental heads. The top managers are also known as general managers.

Top management especially the CEO, is responsible to the Board of Directors for overall management of the organisation. The job of the top management is multi-dimensional and oriented towards the welfare of the total organisation. Though the specific top management functions may vary from organisation to organisation, one could have a good idea about it from an analysis of an organisation's mission, objectives, strategies and key activities. The major responsibilities of a strategist are:

- First, he must assume the responsibility to develop a plan to complete the strategic activities, the plan must be initiated, dates set, deadlines established, and the process must be monitored to ensure that the deadlines are met.
- Second, basic assumptions about forecasts, economic indicators, technology, and general industry competitiveness must be agreed upon and communicated to the functional areas. Procedures must be developed to assure uniformity in the development of the plan. Responsibility for undertaking fundamental studies and valuation of special matters necessary to strategic planning must be assumed.
- Third, the functional areas must actively participate by providing basic underlying data, information, and in some cases specific studies and evaluations. The objectives established by the functional areas must be analyzed and compared to those established for the entire firm. The inputs from the functional areas must also be reviewed for major problems, contradictions, gaps, omissions, conflicts and inconsistencies.

- Fourth, training and assistance must be made available to functional areas that do not have the experience or staff to perform their strategic activities well. This is especially true for the firms initiating formal strategic planning for the first time, or new firms. Responsibility must be allocated in such a fashion that someone stands ready to help the functional areas upon request with substantive problems, forecasts, and studies.

Fundamentally, then, responsibility for coordinating and integrating of the strategic planning function must be assigned. However, the responsibility does not stop there. It also includes instigation of the planning process, simulation of creativity and innovation, and providing support studies and advice to others involved in strategic planning.

1.10 SUMMARY

- Strategic management is all about identification and description of the strategies that the managers can carry so as to achieve the better performance and a competitive advantage for their organization.
- Strategic management gives a broader perspective to the employees of an organization and they can better understand how their job fits into the entire organizational plan and how it is co-related to other organizational members.
- A retail strategy is the ultimate plan guiding a retail firm. It impacts the firm's business activities and its response to market forces, such as competition and the economy.
- VMOST is an acronym for Vision, Mission, Objectives, Strategy and Tactics. It is an internal analysis business framework. It helps in capturing the current strategies of the business organizations and trying to achieve the company's goals by assessing its vision, mission, objectives, strategy and tactics.
- Strategic management is a continuous process that appraises the business and industries in which the organization is involved; appraises its competitors; and fixes goals to meet all the present and future competitor's and then reassesses each strategy.
- Strategic planning is a part of the strategic management process. Strategic management entails both strategic planning and implementation, and is "the process of identifying and executing the organization's strategic plan, by matching the company's capabilities with the demands of its environment."
- A company's business model is a part of its business' overall strategy: It is the nuts and bolts behind how the company plans to achieve its goals, such as making a profit.

Check Your Progress

State the Following Statements are True or False

4. Strategic management is a part of the strategic planning process.
5. Implement the Strategies Strategy implementation means translating the strategies into actions and results.
6. Evaluation of strategy is done by the lower managers to determine whether their strategic choice is implemented in a manner that it is meeting the organization's objectives.

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1.11 KEY TERMS

- **Strategic Management:** Strategic Management is all about identification and description of the strategies that the managers can carry so as to achieve a better performance and a competitive advantage for their organization.
- **Strategy:** A strategy is all about integrating organizational activities and utilizing and allocating the scarce resources within the organizational environment so as to meet the present objectives.
- **Vision:** A vision statement identifies where the organization wants or intends to be in future or where it should be to best meet the needs of the stakeholders.
- **Objectives:** Organizational objectives are defined as the ends which the organization seeks to achieve by its existence and operations.

1.12 ANSWERS TO 'CHECK YOUR PROGRESS'

1. The foundation for the strategic management is laid by the hierarchy of strategic intent. The concept of strategic intent makes clear *What An Organisation Stands For*, Harvard Business Review, 1989 described the concept in its infancy.
2. VMOST is an acronym for Vision, Mission, Objectives, Strategy and Tactics. It is an internal analysis business framework. It helps in capturing the current strategies of the business organizations and trying to achieve the company goals by assessing its vision, mission, objectives, strategy and tactics.
3. The mission statements stage the role that organization plays in society. It is one of the popular philosophical issues which is being looked into business managers since last two decades.
4. False
5. True
6. False

1.13 QUESTIONS AND EXERCISES

Short Answer Questions

1. Discuss the meaning and concept of strategy.
2. What are the key significances of strategic management?
3. Write a note on VMOST.
4. What are the key steps involved in strategic management process?

Long Answer Questions

1. How strategic control plays an important role in the success of strategic management process?
2. Discuss the relationship between a company's strategy and its retail business model.
3. Write a note on retail business strategy and success symbiotic relationship.
4. Discuss the role of retail strategists.

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UNIT 2 STRATEGY FORMULATION: ANALYSIS OF FACTORS

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Structure

2.0 INTRODUCTION

A number of issues in strategic management are concerned with changing strategic capability and better to fit a changing environment. However, looking at strategic development from a different perspective i.e. stretching and exploiting the organizations capability to create opportunities, it again becomes important to understand these capabilities. The above two perspectives together are called the Resource Based View (RBV) of strategy.

Organizational environment consists of both external and internal factors. Environment must be scanned so as to determine the development and forecasts of factors that will influence organizational success. Environmental scanning refers to possession and utilization of information about occasions, patterns, trends, and relationships within an organization's internal and external environment. It helps the managers to decide the future path of the organization. Scanning must identify the threats and opportunities existing in the environment. During strategy formulation, an organization must take advantage of the opportunities and minimize the threats. A threat for one organization may be an opportunity for the another.

Internal analysis of the environment is the first step of environment scanning. Organizations should observe the internal organizational environment. This includes employee interaction with other employees, employee interaction with management, manager interaction with other managers, and management interaction with shareholders, access to natural resources, brand awareness, organizational structure, main staff, operational potential, etc.

Professionals from different organizations suggest that a firm's overall strengths and weaknesses and its ability to execute are often found more important to its performance than environmental factors. Internal capabilities and process execution at times allow firms to gain competitive edge over competitors even with relatively lesser resources and lesser advantageous position.

Caselet: General Electric's Two-Decade Transformation Under the Leadership of Jack Welch

When Jack Welch became CEO of GE in 1981, he set out to re-energize one of America's largest companies. Through a revision of GE's mission and values, Jack Welch grew GE from a $24+ billion company to into a $74+ billion company, ready to face competitors and future challenges. Welch realigned the goals and motivation, forcing managers to stretch to previously unknown limits. Any company not number one or two in their industry was divested or closed and though sometimes perceived to be a destroyer, he restructured GE into one of the world's most staid corporations.



Jack Welch's management and motivation approach included three main areas:

1. Goal setting and preparing the company on a corporate level for its competitive challenges;
2. Empowering employees at all the levels of the organization; and
3. Communicating his new goals and visions through the entire organization, using such tools as extensive training programs, newly formed teams and 3600

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review processes. Different aspects of Jack Welch's management tactics, in terms of motivating employees to bring about change.

When Welch took over GE, he had a vision of creating an organization where people at all levels could be held responsible for their own work, and in the end make decisions for the betterment of their job. The goal was not to control workers, but instead to liberate them. Welch characterized this as creating a boundaryless organization in which empowered employees were self-directed and motivated to effectively achieve their goals. When Welch became the CEO of GE he found that the company was still organized in the way it had been when GE was founded near the turn of the century. Specifically, it was represented by an overwhelming nine layers of management between the shop-floor and the CEO. This bureaucracy lead to an unresponsive, inward focused company whose employees found great difficulty in communicating with one another. In fact, if GE's massive cost structure was not dramatically restructured, analysts projected that GE would become unprofitable by the end of 1982. Welch addressed this issue by eliminating whole layers of management *(see appendix for 1981, 1992 &1993 organizational charts)*, consolidating overlapping jobs and business units, and forcing employees at every level to take more responsibility for their own work. If something was not absolutely necessary, they eliminated it *(very much like Xerox did in "Dining at the Quality Restaurant")*. They stopped gathering unnecessary financial data and eliminated unnecessary reports. In the past, it had not been unusual for business managers to request daily reports that contained so much details that the reports often produced a 12-foot high stack of paper. The sheer mass of detailed information made a mastery of the details impossible thereby rendering the information relatively useless.

In the plant, equipment operators became responsible for the quality of their own work, reducing the need for inspectors. In effect, employees were given the ability to eliminate those aspects of their job that were unproductive and thus unnecessary. An important aspect of this had been the Work-Out, which had opened the communication channels necessary to help bring about innovative changes (once again very much comparable to the training camps introduced by Xerox in its attempts to reinvent itself).

The Work-Out had been an empowerment concept greatly favoured by Welch. Thousands of GE employees got an opportunity to get together and share their ideas, thoughts and know-how, while building and fostering a more creative and team-oriented atmosphere. The Work-Out encouraged communication and accountability with the ultimate goal being to drive above average team performance. By providing each team member with the opportunity to contribute his ideas to the decisionmaking process, Jack Welch's hoped to stimulate individuals to constructively challenge their bosses and promote a more motivated workplace. All Work-Outs included follow-up meetings where previous commitments were discussed and accountability was enforced. Empowerment had been a two-way

street. Employees had received the satisfaction of being able to air their concerns, while the company had greatly benefited from insights shared in the Work-Out. Under Jack Welch, GE began to realize that human beings were not machines and that each person had the potential to enhance productivity. Knowing how to use this resource could not only give the company a competitive edge, it could make each employee feel more important in the production process and thus more motivated. Although it was difficult to measure the results of empowerment, GE believed that the success of the company in the future will prove that it was the right decision to make. The key question therefore was to find out how leaders like Welch decided that empowerment was the right strategy and how they in general decide if it is the right strategy to implement at their companies. "Boundaryless behavior" and the elimination of unnecessary communication filters are the key phrases to describe Jack Welch's attitude towards communication. He encouraged input from every employee, from the factory floor to the executive suited. To facilitate goal setting and empowerment within GE, Welch needed to establish clear lines of communication in the organization. He realized that employees come to GE with different experiences and backgrounds. He did not want to take away from the benefit of those various backgrounds, as much as reshape them with GE philosophies. This is not to say that he wanted a workforce of robots. Just the opposite actually, he want free thinkers. One of his objectives was to motivate people to think outside the box and challenge the status quo. Open communication channels between Welch and his employees had been an important tool in this regard. These channels work in both directions, giving employees the ability to air their concerns and work towards a consensus for action. They also helping motivated employees, because once again employees feel that they were directly contributing to the success of the company.

Cultural Change Processes

GE's Work-Out process was created in 1988 as part of the ongoing drive for better productivity and efficiency. Initially, Work-Out was intended to identify and eliminate unneeded processes and tasks that were left over from previous years, when management had more layers. After restructuring, many groups did more work with fewer people, rather than making comprehensive operational changes. The aptly named Work-Out process involved identifying an area in need of improvement and bringing people together from all sides of the process (design, marketing, production, sales, etc.) to identify a better method. The Work-Out team meets outside of its normal work environment to discuss the issues and develop recommendations. Team recommendations are presented to the responsible managers, who must accept or reject the proposals on the spot. Ideas that require further study are reviewed for a period of time agreed on by the team (usually less than a month) before a final decision is made. The process encourages responsive leadership and greater employee participation, which

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increases the rate of change throughout the organization. When Work-Out began, groups initially attacked the obvious things that didn't made sense in the new GE, known as "low-hanging fruit". As Work-Out evolved, customers and supplier-partners were introduced to the process. The Work-Out process is now a part of everyday life at GE. In General Electric, Jack Welch was the OD practitioner. He brought so many changes like:

- **Merger & Acquisition**-Jack Welch made more than 200 merger & acquisition his first acquisition with Hungary Lighting in 1989. Later on, they merge the reason behind the success of merger & acquisition was its integration model. There was some policy which was followed by GE before making any acquisition. These acquisition accelerate the future of GE.
- **Delayering**-When Welch assumed the position of CEO, he saw the extent of GE's vast bureaucracy. There were more than 500 senior managers, more than 100 vice-presidents, and some 25,000 managers. There were strategic planners who hired vice-presidents, and vice-presidents who hired strategic planners. Removing entire layers of management was a defining aspect of Welch's hardware revolution. Not only did he eliminate layers of management, he also dis-mantled the walls that had separated key functions (for example, marketing and manufacturing) within the company.
- **E-initiative**- Welch used to refer to GE's Internet initiative. As part of GE's e-initiative, Welch recommended that every process be digitized. The GE CEO sees this as yet another important step in making the company faster and more agile. In 2000, digitization helped the company sell more than $8 billion of products and services via the Internet. Welch calculates that GE's digitization of its processes will save the company in excess of $1.5 billion in operating margin in 2001. GE calculates that e-business will save over $1 billion in operating margin in 2001 and have $1.5 billion in cost savings. Welch also predicts that in 2001 GE will buy about $12 billion in materials over the Internet and rack up online sales of about $20 billion. He now calls the Internet "the thing of the future" and sees it as a productivity tool to "make the old young and the slow fast." Welch is gaining speed through E-business and, he is throwing himself into this, his final major company wide initiative, with the same favour as his other three crusades.
- **Globalization**- Welch understood that unless the company moved onto the world stage, it would not become a global competitor. Starting in the mid- to late 1980s, GE launched a three-phase revolution that ensured the company's place in world markets . Welch's first key growth initiative,

globalization played an important role in helping GE grow at doubledigit rates throughout his tenure. Today globalization is an indelible part of the GE fabric. So much so that the company says it is "less an 'initiative' and more a reflex." That brand of thinking represented a vast departure from where GE was only two decades ago. Before CEO Welch took the reins, GE derived only 20 per cent of its revenues from non-U.S. markets. In 2001, more than 40 per cent of GE's sales came from outside the United States.

GE Six-Sigma Quality Coach: An Internet-based mentoring program (or Web-based performance support system)that helps train GE personnel on the quality initiative.This is an important tool in helping GE achieve Six Sigma Quality. It was developed after GE performed 55,000 Six Sigma projects involving 4000 quality leaders, and consists of more than 50 tools used in implementing the steps of Six Sigma.

The Product Services Initiative. Welch knew that GE's manufacturing business would take the company only so far,as the market for huge-ticket items like jet engines was limited. In 1995,Welch made product services a top priority, helping to double GE's product service business to $17 billion by 2000.

Work-Out: Welch's second major companywide initiative (after Globalization) turned hierarchy on its head. Of the five companywide initiatives,Work-Out was Welch's only cultural initiative and the one most responsible for changing attitudes and behaviours within GE.Work-Out ensured that the managers listened to workers, giving employees a voice in decisionmaking.Welch credited Work-Out with establishing the boundaryless culture that helped create GE's "learning engine."Work-Out was a seminal program that helped to bring an end to the type of scientific management methods that had ruled GE and other large companies for decades.Welch said that "Work-Out was nothing more complicated than bringing people of all ranks and functions—managers, secretaries,engineers, line workers, and sometimes customers and suppliers—together in a room to focus on a problem … and then act rapidly and decisively on the best ideas developed, regardless of their source."

Barriers during the Changes

Anything that hampered performance or open communication was to be torn down.Welch's initiatives were designed to erase the barriers that proliferate in large organizations: horizontal barriers, vertical barriers, and external barriers. Welch urged employees to "blow up" bureaucracy and knock down every boundary. Much of what he did in the 1980s, from delayering to Work-Out, was explicitly designed to remove debilitating barriers.Welch was fiercely committed to removing any speed bump that slowed the company down. His strategy of boundarylessness was specifically designed to remove the boundaries that separated GE workers from new ideas, customers, and each other.

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There are two types of barriers–first is horizontal barriers and second one is vertical barriers.

- **Horizontal Barriers:** These are the debilitating boundaries that isolate separate groups within the company, such as sales and manufacturing. Horizontal barriers also refers to geographic walls that exist, such as between Seoul and Sidney. With programs like Work-Out and Globalization,Welch tore down these unnecessary barriers.
- **Vertical Barriers:** Barriers had no place in Welch's boundaryless organization.Vertical barriers are those layers that added bureaucracy and put more distance between executives and employees.When Welch became CEO, there were nearly a dozen layers between CEO and the factory-floor. He delayered, chopping the wedding cake hierarchy down to only four or five layers.

Re-shaping GE for the Future

While others are worrying about the next quarter, Jeff Immelt is planning years of explosive growth. He's trying to recast GE for decades to come, spending big bucks to create the new infrastructure of innovation, beefing up GE's global research facilities, overhauling the GE research center in Niskayuna, NY, investing in new, cutting-edge R&D centers in Bangalore, India, Shanghai, China and Munich, Germany.

The simple fact is that most of GE's growth will come from outside the US. Jeff Immelt predicts that developing countries will account for 60% of the company's growth in the next 10 years, vs. about 20% for the past decade.

To Jeff Immelt, the best managers are the great marketers and not just great operators. Marketing is not just a matter of producing better commercials or catchy slogans – it means getting outside the company to understand markets and customers. Managers must look to lead industries rather than merely follow demand. And they must be the leaders who are experts in their business and intensely passionate about what they're doing.

Conclusion

Jack Welch's attitude towards management boils down to a few very simple ideas: breaking down hierarchies, ensuring free information flows throughout the organization, and encouraging people to talk, listen and be open to new ideas. When he first became GE vice-president at the age of 36, he "stalked out on the plant-floor, or picked up the telephone to deal directly with anyone at any level when a problem came up" and that is the organization Jack Welch has attempted to build in terms of communication. Welch succeeded in transforming a complacent behemoth into an energized company ready to face world competition. By flattening the organization and by removing unnecessary layers of bureaucracy, he liberated employees and empowered them to make decisions and effect their

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jobs, as well as the company as a whole. At the same time, he relied on stretch goals and the slope of satisfaction (as previously discussed) to further push the company to new levels of achievement. An additional sense of empowerment was relayed through various communication, training and motivation mediums, such as the "Work-Out", "the Pit", "the Corporate Executive Council" and other special project teams. Foremost he underlined his words with accompanying actions and an exemplary attitude, avoiding the well known saying that words by themselves are empty. Through the use of 360- degree review processes, appropriate bonus schemes and structural organizational changes, Welch created and opened communication channels at GE, allowing for unprecedented networking, teamwork, and openness to takeplace at GE. All of these factors combined to form a motivating force for the employees of GE. This motivation in turn has lead to a decade of outstanding performance by Jack Welch and General Electric Corporation.

Source: *Scribd.com*

2.1 UNIT OBJECTIVES

After going through this unit, you will be able to:

- Describe the internal environment and Organizational capabilities in various functional areas
- Describe the key environmental factors
- Explain the key environmental scanning techniques
- Discuss the methods and techniques used for Organizational appraisal
- Develop strategic advantage profile
- Identify the critical success factors.

2.2 INTERNAL APPRAISAL

It is basically to evaluate the firm's own capacities and to meet the requirements of existing activities efficiently and effectively; and also to meet the challenges or threats indicated on the basis of external appraisal. It further identifies the strengths, weaknesses, and resources of the company keeping the objectives, the external environment, and the forecast in view; the strengths to be utilised, the weaknesses to be corrected. It is important to realise that although there is interrelationship between internal appraisal and environment analysis, the two are really different and isolated from each other. In effect, internal appraisal is best done against the background of environment analysis.

A number of basic concepts should be borne in mind as the appraisal progresses, and performance rated against them.

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- It should always be assumed that there might be a better way of doing something until the contrary is proved.
- It is usually a relatively small amount of efforts that produces most of the returns.
- Usually, around 80 per cent of the profit comes from, say, 20 per cent of efforts, the remaining 20 per cent requiring the balance 80 per cent efforts. Any action that reduces the amount of less profitable action should lead to corporate improvement. This, in effect, is an illustration of the Pareto Principle.
- Often knowledge of what is being done is not as perfect as managers within a company to believe. One of the tasks of corporate appraisal should be to ascertain the facts.
- When, what is being done has been established, the question 'why' should be asked.
- The future is more important than the present where the trends and effects on the aspects studied can be foreseen.
- The appraisal should cover all aspects of the company.

The following factors should be considered as part of the internal appraisal:

1. **Trends of results:** For example, trends in profits, sales, capital employed, and the various commonly used ratios. This will show whether the company is improving or worsening in its performance.
2. **Sources of profit:** This analysis should be mostly marketing-oriented.
3. **Risk:** Arising from such factors as over-dependence on a single market, too few customers for a product, raw materials shortage, overdependence on one supplier and other market risks.
4. **Manufacturing activity:** The purpose being production cost reduction, consideration of the process should include, apart from the manufacturing process, plant and equipment appropriateness and efficiency, correct labour deployment and efficiency, also the raw materials, the standards set for their purchase and the efficiency of the company as buyer (skills, technology absorption creation).
5. **Rationalisation of resources:** This involves rationalisation relocations of facilities, plants and building, distribution depots, supply and demand patterns, etc.
6. **Organization and management structure:** This involves studying the basic Organizational structure, assessment of managerial capabilities, the company's labour relations, company's relation with its trade unions, morale of employees, corporate motivation, etc.
7. **Financial resources:** Study of the company's liquid resources and expected future cash-flow position.

8. **Corporate capability:** This is brought out in the analysis of the company's synergy structure.
9. **Systems:** This would involve assessment of the formal and informal systems and communications, authorities and participation within the company.
10. **Use of resources:** This essentially involves a study of allocation of resources between the products and a comparison of this with their real profit contribution. Resources here mean not only money, building, and plant, but also what are probably the scarce resources of management talent, capability, and technical skills.
11. **Skills and Technology:** This refers to the availability of the required technology in the Organization, as also the specialized skills for the technology absorption, adaptation, and creation.

Internal appraisal should also include the following:

(a) **The Organization Climate and Culture:** Whether this is compatible with the environment at large. This is an area in particular where a shift in either the organizational climate or of the environment surrounding it and the consequent incompatibility may prove disastrous or near disastrous.

(b) **A Shift in Organizational Leadership:** Such a shift within an unchanged Organizational culture may again produce wasting conflicts, often leading to a decrease in efficiency which, once identified, requires considerable efforts and internal readjustment to correct.

2.3 THE INTERNAL ENVIRONMENT AND ORGANIZATIONAL CAPABILITIES IN VARIOUS FUNCTIONAL AREAS

It is not possible for a business policy text to review in depth all the materials presented in courses such as marketing, finance, accounting, management, computer information systems and production/operations; there are many sub-areas within these functions, such as customer services ,warranties, advertising, packaging, and pricing under marketing.

All organizations have strengths and weaknesses in the functional areas of business. No enterprise is equally strong or weak in all areas. *Maytag*, for example, is known for excellent production and product design, whereas *Procter & Gamble* is known for superb marketing. Internal strengths/weaknesses, coupled with external opportunities/ threats and a clear statement of mission, provide the basis for establishing objectives and strategies. Objectives and strategies are established with the intention of capitalizing up internal strengths and overcoming weaknesses.

Organizational capability could be understood in terms of the strengths and weak-nesses existing in the different functional areas of an Organization. We shall consider

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six such areas: finance, marketing, operations, personnel, information management and general management. For each of these, we shall mention the important factors influencing them and clarify the nature of the various functional capability factors through illustrations.

We deal with the factors that affect appraisal, the approaches adopted for appraisal, and the sources of information used to perform organizational appraisal. With regard to the methods and techniques used for organizational appraisal, we consider a range of factors grouped under the three headings of internal analysis, comparative analysis, and comprehensive analysis. The application of these methods results in highlighting the strengths and weaknesses that exist in different functional areas.

We attempt to understand the internal environment of an organization in terms of the organizational resources and behaviour, strengths and weaknesses, synergistic effects, and competencies.

An organization uses different types of resources and exhibits a certain type of behaviour. The interplay of these different resources along with the prevalent behaviour produces synergy or dysergy within an organization, which leads to the development of strengths or weaknesses over a period of time. Some of these strengths make an organization especially competent in a particular area of its activity causing it to develop competencies. Organizational capability rests on an organization's capacity and ability to use its competencies to excel in a particular field.

Organizational Resources

The dynamics of the internal environment of an organization can be best understood in the context of the resource-based view of strategy. According to Barney (1991), who is credited with developing this view of strategy as a theory, a firm is a bundle of tangible and intangible resources that includes all assets, capabilities, organizational processes, information, knowledge, and so on. These resources could be classified as physical, human, and organizational resources. The physical resources are the technology, plant and equipment, geographic location, access to raw materials, among others. The human resources are training, experience, judgment, intelligence, relationships, and so on, present in an organization. The organizational resources are the formal systems and structures as well as informal relations among groups. Elsewhere, Barney has said that the resources of an organization can ultimately lead to a strategic advantage for it, if they possess four characteristics i.e., if these resources are valuable, rare, costly to imitate, and non-substitutable.

Organizational Behaviour

Organizational behaviour is the manifestation of the various forces and influences operating in the internal environment of an organization that create the ability for, or place constraints in the usage of resources. Organizational behaviour is unique in the sense that it leads to the development of a special identity and character of an

organization. Some of the important forces and influences that affect organizational behaviour are: the quality of leadership, management philosophy, shared values and culture, quality of work environment and organizational climate, organizational politics, use of power, among others.

The perceptive reader would note that what we are proposing here is a marriage of the hard side of an organization its resource configuration with the soft side of behaviour. The resources and behaviour are thus the *yin and yang* of organizations. What they collectively produce are the strengths and weaknesses.

Strengths and Weaknesses

Organizational resources and behaviour do not exist in isolation. They combine in a complex fashion to create strengths and weaknesses within the internal environment of an organization. Strength is an inherent capability which an organization can use to gain strategic advantage. A weakness, on the other hand, is an inherent limitation or constraint which creates a strategic disadvantage for an organization. Financial strength, for example, is a result of the availability of sources of finance, low cost of capital, efficient use of funds, and so on. Another example is of a weakness in the operational area which results due to inappropriate plant location and layout, obsolete plants and machinery, uneconomical operations, and so on. In the following sections, we will take up a detailed discussion of the strengths and weaknesses in different functional areas within an organization.

Synergistic Effects

It is the inherent nature of organizations that strengths and weaknesses, like resources and behaviour, do not exist individually but combine in a variety of ways. For instance, two strong points in a particular functional area add up to something more than double the strength. Likewise, two weaknesses acting in tandem result in more than double the damage. In effect, what we have is a situation where attributes do not add mathematically but combine to produce an enhanced or a reduced impact. Such a phenomenon is known as the *synergistic effect*. Synergy is the idea that the whole is greater or lesser than the sum of its parts. It is also expressed as the two-plus-two-is equal to-five-or-three effect.

Competencies

On the basis of its resources and behaviour, an organization develops certain strengths and weaknesses which when combined lead to synergistic effects. Such effects manifest themselves in terms of organizational competencies. Competencies are the special qualities possessed by an organization that enable them withstand pressures of competition in the marketplace. In other words, the net results of the strategic advantages and disadvantages that exist for an organization determine its ability to compete with its rivals. Other terms frequently used as being synonymous to competencies are unique resources, core capabilities, invisible assets, embedded

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knowledge, and so on. When an organization develops its competencies over a period of time and hones them into a fine art of competing with its rivals, it tends to use these competencies exceedingly well. The capability to use the competencies exceedingly well turns them into core competencies.

Organizational Capability

Organizational capability is the inherent capacity or potential of an organization to use its strengths and overcome its weaknesses in order to exploit opportunities and face threats in its external environment. It is also viewed as a skill for coordinating resources and putting them to productive use. Without capability, resources, even though valuable and unique, may be worthless. Since organizational capability is the capacity or potential of an organization, it means that it is a measurable attribute. And since it can be measured, it follows that organizational capability can be compared. Yet it is very difficult to measure organizational capability as it is, in the ultimate analysis, a subjective attribute. As an attribute, it is the sum total of resources and behaviour, strengths and weaknesses, synergistic effects occurring in and the competencies of any organization.

Strategic Advantages

Strategic advantages are the outcome of organizational capabilities. They are the result of organizational activities leading to rewards in terms of financial parameters, such as, profit or shareholder value, and/or non-financial parameters, such as, market share or reputation. In contrast, strategic disadvantages are the penalties in the form of financial loss or damage to market share. Clearly, such advantages or disadvantages are the outcome of the presence or absence of organizational capabilities. Strategic advantages are measurable in absolute terms using the parameters in which they are expressed. So, profitability could be used to measure strategic advantages the higher the profitability the better the strategic advantage. They are comparable in terms of the historical performance of an organization or its current performance with respect to its competitors.

The following table explains the key capability factors of different functional areas.

Table 2.1: Capability Factors

	Capability Factors		
	Weakness (–5)	**Normal (0)**	**Strength (+5)**
1. Financial capability factors			
(a) Sources of funds			

(b) Usage of funds			
(c) Management of funds			
2. Marketing capability factors			
(a) Product-related			
(b) Price-related			
(c) Promotion-related			
(d) Integrative and systematic			
3. Operations capability factors			
(a) Production system			
(b) Operations and control system			
(c) R & D System			
4. Personal capability factors			
(a) Personal system			
(b) Organizational and employee characteristics			
5. Information management capability factors			
(a) Acquisition and retention of information			
(b) Processing and synthesis of information			

Check Your Progress

1. What is the objective of conducting internal appraisal?
2. What do you mean by organizational resources of the firm?
3. Define the meaning of term synergy.

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(c) Retrieval and usage of information			
(d) Transmission and dissemination of information			
(e) Integrative, systematic, and supportive			
6. General management capability factors			
(a) General management system			
(b) External relations			
(c) Organizational climate			

2.4 ANALYSIS OF AREAS OF STRATEGIC EDGE

The firm's present strategies, objectives, and mission coupled with the external and internal audit information, provide a basis for generating and evaluating feasible alternative strategies. Unless a desperate situation faces the firm, alternative strategies will likely represent incremental steps to move the firm from its present position to a desired future position. Alternative strategies do not come out of the wild blue yonder; they are derived from mission, objectives, external audit, and internal audit; they ate consistent with or build upon, past strategies that have worked well.

Strategists never consider all feasible alternatives that could benefit the firm, because there are an infinite number of possible actions and an infinite number of ways to implement those actions, therefore, a manageable set of the most attractive alternative strategies must be developed. The advantages, disadvantages, trade-offs, costs, and benefits of these strategies should be determined. This section discusses the process that many firms used to determine an appropriate set of alternative strategies. All participants in the strategy analysis and choice activity should have the firm's external and internal audit information by their sides. This information, coupled with

the firm's mission statement will help participants crystallize in their own minds particular strategies that they believe could benefit the firm most. Creativity should be encouraged in this thought process.

Strategists themselves, not analytical tools, are always responsible and accountable for strategic decisions. Lenz emphasized that the shift from a words-oriented to a numbers-oriented planning process can give rise to a false sense of certainty; it can reduce dialogue, discussion, and argument as a means to explore understandings, test assumptions and foster organizational learning. Strategists therefore must be wary of this possibility and use analytical tools to facilitate, rather than diminish, communication. Without objective information and analysis, personal biases, politics, emotions, personalities and halo error (the tendency to put too much weight on a single factor) unfortunately play a dominant role in the strategy-formulation process.

The Input Stage

The input tools require strategists to quantify subjectivity during early stages of the strategy-formulation process. Making small decisions in the input matrices regarding relative importance of external and internal factors allows strategists to generate and evaluate alternative strategies more effectively. Good intuitive judgment is always needed in determining appropriate weights and ratings.

The Matching Stage

Synergy is sometimes defined as the match made by an organization between its internal resources and skills and the opportunities and risks created by its external factors. The matching stage of the strategy-formulation framework consists of five techniques that can be used in any sequence: the TOWS Matrix, the SPACE Matrix, the BCG Matrix, the IE matrix and the Grand Strategy Matrix. These tools rely upon information derived from the input stage to match external opportunities and threats with internal strengths and weaknesses. Matching external and internal critical success factors is the key to effectively generating feasible alternative strategies! For example, a firm with excess working capital (internal strength) could take an advantage of the cablevision industry's 20 per cent annual growth rate (an external opportunity) by acquiring a firm in the cablevision industry. This example portrays simple one-to-one matching. In most situations, external and internal relationships are more complex, and the matching requires multiple alignments for each strategy generated.

2.5 ENVIRONMENTAL FACTORS (PESTLE/PESTEL) AND THEIR DYNAMICS

The macro environment in which all organizations operate broadly consist of the economic environment, the political and legal environment, the socio-cultural aspects

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and the environment related issues like pollution, sustainability, etc. The technological temper and its progress has been the key driver behind the major changes witnessed in the external environment making it increasingly complex.

These factors often overlap and the developments in one area may influence the developments in other. For example, the opening up of economy integrated the markets globally and increased the competition between private and public firms.

The term PESTEL analysis is useful to consider, as a starting point, what environmental influences have been particularly important in the past. One can also look at the extent to which there are changes occurring, which may make any of these more or less significant in the future, for the organization and its competitors.

The external forces can be classified into six broad categories: Political, Economic, Social, Technological, Environmental and Legal Forces. Changes in these external forces affect the changes in consumer demand for both industrial and consumer products and services. These external forces affect the types of products produced, the nature of positioning them and market segmentation strategies, the types of services offered, and choice of business. Therefore, it becomes important for the organizations to identify and evaluate external opportunities and threats so as to develop a clear mission, designing strategies to achieve long-term objectives and develop policies to achieve short-term goals. Here, we will discuss all the six forces individually and then try to reach the conclusion regarding environmental analysis.

Exhibit 2.1: Environmental Factors

The Exhibit 2.1 shows the key factors of PESTEL.

Political

1. Government stability
2. Political values and beliefs shaping policies
3. Regulations towards trade and global business
4. Taxation policies
5. Priorities in social sector

Economic Factors

1. GNP trends
2. Interest rates/saving rates
3. Money supply
4. Inflation rate
5. Unemployment
6. Disposable income
7. Business cycles
8. Trade deficit/surplus

Socio-cultural Factors

1. Population demographics
   - ethnic composition
   - aging of population
   - regional changes in population growth and decline
2. Social mobility
3. Lifestyle changes
4. Attitudes to work and leisure
5. Education - spread or erosion of educational standards
6. Health and fitness awareness
7. Multiple income families

Technological

1. Biotechnology
2. Process innovation
3. Digital revolution
4. Government spending on research
5. Government and industry focus technological effort
6. New discoveries/development
7. Speed of technology transfer
8. Rates of obsolescence

Environmental and Legal

1. Monopolies legislation/Antitrust regulations
2. Employment law
3. Health and safety
4. Product safety

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2.5.1 Political Environment

In democratic countries, business excesses generated disenchantment and a growing demand for more humanist goals to equalise income distribution and end poverty and suffering. Such pressures had caused the trends towards the welfare states in which the state:

(a) diverts resources into various welfare projects,

(b) establishes compulsory insurance schemes, e.g national health care, and

(c) affects worker motivations to contribute. Thus, in the USA, rent subsidy, negative income tax, welfare payments, and a food stamps programme were established

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to raise the living standard of the poor. Continued pressures for welfare states will probably grow and affect many nations, organizations and individuals in the following ways:

- Total taxes and government spendings will increase drastically,
- Worker penalties for welfare recipients will create dysfunctional worker motivation,
- Any government administration will find it well nigh impossible to reverse the trend towards greater welfare benefits,
- Resource allocation decisions will increasingly be made on philosophical or political grounds rather than on economic criteria,
- Increased worker taxation on incremental income will encourage worker absenteeism,
- Government dependence will decrease worker motivation through lack of care or worry.

This trend may, however, result in business sales stagnation leading to economic and industrial decline and depression. In short, carried too far and without compatibility with economic considerations, the welfare state trend would probably conflict with economic progress and viability. Indeed, in more recent times it has already happened in many countries and the trend towards the welfare state has been reversed.

Perhaps the political environment needs to be looked at from certain other viewpoints as well. Corporations today spend hundreds of millions of dollars on political contributions and lobbying. These contributions are sometimes designed to support principles that corporate executives believe in are worthwhile for society. More often, however, they tend to be self-serving. This is evident from the fact that few political contributions are made anonymously. The political facet of environment is also concerned with the organization's relationships with government officials and other individuals and groups who hold political power.

2.5.2 Economic Environment

The significant indicators of the economic environment would include:

- Growth rate in productivity
- Rate of inflation
- Individual savings rate
- R&D expenditure as a percentage of GNP

The key domestic social and economic goals would include:

- Revitalisation of cities,
- Cleaner environment,
- Quality education,
- Old age security.

Economic factors throw light on the nature and direction of the economy in which a firm operates. The firms must focus on economic trends in the segments that affect their industry. For example the present trend of low interest rates on personal savings may compel the individuals to move towards equity and bond markets leading to boom in the capital market activity and the mutual fund industry. Consumption patterns are usually governed by the relative affluence of market segments and the firms must understand them through the level of disposable income and the tendency of people to spend. Interest rates, inflation rates, unemployment rates and trends in the gross national product, government policies and sectoral growth rates are other economic influences which must be considered.

The key economic environmental problems of recent and current times appear to be:

- Controlling inflation,
- Modernising industry,
- Taking care of energy shortages,
- Growing international interdependence,
- National economic factors.

These are now slightly elaborated.

Controlling Inflation

A major long-term political issue in combating inflation is whether high employment and non-inflationary economic growth can be achieved simultaneously. The continuation of economic restraint and unemployment to suppress inflation can only lead to further development of a welfare state and the trend appears to be exactly the opposite the world over. The inflationary impact of demand expansion policies, however, will require greater wage-price flexibility, productivity and advance capital investment to ensure supply availability. Such growth policies would, therefore, require changes in environmental and other regulatory provisions.

Modernising Industry

To be internationally competitive, the industry must seek economies of scale to sustain comparative advantages in efficiency and productivity. This requires continued capital investments and the application of technological innovations from research and development to reduce unit cost and to lead to the introduction of new and more efficient products and processes.

Living with Energy Shortages

The world economies at large will be living in a world of gradually depleting oil, gas and, ultimately, coal reserves. This demands special action and incentives for the development of renewable energy sources such as solar and fusion energy. Until such alternatives are able to meet future needs , special attention will be necessary to deal with the interim supply and demand problems, including national energy

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policies for the conservation and development of alternative supplies. The problem has been further complicated by the changed social value system and newly awakened awareness about pollution and environmental degradation through extensive use of fossil fuel, on the one hand, and damage to the ecosystem through large dam- or barrage- based hydroelectric projects, on the other.

Growing International Interdependence

The rapid increase in movement of goods, people, money, ideas, and problems across national boundaries is complicating the ability of nations to manage their own economic affairs without reference to other nations and national interests. Thus the economic export policies of Japan, for example, have significantly influenced US and Western steel, auto, radio, and electronics industries. The transfer of Eurodollars to high interest paying countries can significantly affect exchange rates and corresponding corporate currency adjustments (often forcing significant accounting losses or gains). The growth in world trade also causes inflation to spread rapidly from one economy to another. Less-developed countries that control scarce resources such as oil have increased the abundance of capital at their disposal. Important exporting nations such as Brazil, Korea, Taiwan, and now the South East Asian countries like Indonesia, Malaysia, Thailand, and Singapore are becoming industrialised and thus prospective members of the developed world. Simultaneously a host of less-developed countries mostly in Africa are near bankruptcy. Interventions by international financial institutions like the International Monetary Fund or the World Bank are hardly assisting in countering the trend. Countries with balance-of-payments surpluses are becoming significant world bankers. Those with balance-of-payments difficulties are being forced into severe financial difficulties and basic problems of survival.

In sum, because of the influence of global economic events, it is usually inadequate to consider national economic policies without taking cognizance of the broader global economic context in which all the national economies must exist. This broader economic context must include an assessment of such fundamental indices as:

- Performance of the major industrial countries in their
  - Rates of inflation
  - Real growth rate of GNP
  - Current account balances
  - Levels of employment
  - Interest rates

Such an appraisal should enable a judgement to be made about the general state of world economy and its stage in the business cycle.

Information and analysis of other global issues such as

- The economic development and performance of nations
  - Global efforts at monetary reforms
  - The behaviour of currency markets
  - Commodities

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- Trade talks
- Activities of the International Monetary Fund
- Activities of the World Bank
- Third World indebtedness

The State of the National Economy

The analysis of the global economy can form the economic context within which the national economy can be appraised.

This can be done on a hierarchical basis, as discussed below:

1. The top economic goals of the government are assessed. Information for this can be obtained from party manifestos, government statements, budget statements, etc.
2. The specific policies advocated and implemented to achieve these goals are studied. The policies fall under the following principal headings:
   - **Fiscal policies:** What is the level of government spending and what are its policies on taxation? For example, is government, through public expenditure, attempting to raise the level of demand and hence reduce unemployment? Is the government's tax strategy designed to increase the investment or increase public spending power?
   - **Monetary policies:** How tightly are the monetary measures such as the money supply and Public Sector Borrorwing Requirement (PSBR) being constrained?
   - **Inflation policies:** What is the government's attitude towards inflation and what does it believe are its causes? What steps are taken to influence the level of inflation?
   - **Foreign exchange and balance-of-payments Policies:** What is the government's attitude towards stability in the value of the national currency? How do the changes in the value of national currency affect the economy in general and the organization under analysis in particular?
   - **Unemployment policies:** How committed is the government to full employment, and what policies does it use to achieve employment goals?
   - **Privatisation policies:** How strongly committed to the privatisation of nationalized industries is the government? What is the objective of privatisation: to increase competitiveness, to raise revenues for the government, or to underpin an ideological theory?
   - **Regional policies:** How committed is the government to strong regional policies to prevent the concentration of industry and commerce in favoured locations?

The operation of most of the above indicators can be quantitatively assessed. Once the impact of the economic segment has been assessed, it can be weighted. The rate of

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inflation that prevails, can have a significant environmental influence. It is, however, not enough only to know the rate of inflation; it is also necessary to understand and appreciate its impact on the workings of a particular company. This is because inflation tends to act as a tax on current assets and as a subsidy on fixed assets.

Thus, for example, a banker, a financial company, the assets of which are skewed towards money and other similar products, must earn a return on equity at least as large as the rate of inflation, otherwise their net worth would be eroded by inflation. In contrast, a property company, for instance, would find its fixed assets constantly understated in its balance sheet during inflation, as the realisation-on-sale would be much higher.

In short, the economic facet of the environment is a rapidly changing one, but the more it changes, the more it remains the same. Organizational strategists must still compete on an economic basis. As long as prices for goods and services are set in free markets, it will be on the basis of economic variables that an Organization sets its goals and measures its performance.

2.5.3 Social-Cultural Environment

The following are the key social-cultural factors affecting the environment:

1. *Demographic Changes*

The decade of the eighties has seen the impact of the postwar baby boom generation throughout the world. The age of the prime workforce and prime consumer population belonged to this generation, and their tastes and habits influenced the habits and purchasing choices in the market, on the one hand, and motivated the manufacturing sector, on the other. Some features of this impact are worth listing.

- A general increase in the educational level.
- A distinct shift in the value system, resulting in discernable cultural dissatisfaction at the workplace, which in turn affected productivity.
- Increase in productivity, even at a less than expected pace, augmented by automation.

2. *Social Responsibility*

Organizational strategists have great influence over what is right or wrong because they normally establish policies, develop the company's mission statement, and so forth. When a corporation behaves as if it had a conscience, it is said to be socially responsible. Social responsibility is the implied, enforced, or felt obligation of managers, acting in their official capacities, to serve or protect the interests of stakeholder groups other than themselves.

Business ethics is the application of ethical principles to business relationships and activities.

Changing values towards social responsibility to understand the social responsibility of a corporation, it is useful to begin by understanding an organizational constituency. An organizational constituency is an identifiable group towards which organizational

managers either have or acknowledge a responsibility. Clearly, every business organization has a large number of stakeholders, some of whom are recognised as constituencies and some of whom are not. An organizational stakeholder is an individual or a group whose interests are affected by organizational activities.

Considering literacy and the composition of literates in the country creates opportunities for particular type of industries and type of jobs. For example, on one hand, the presence of a large number of English-speaking engineers encouraged many software giants to set up shops in India and on the other hand, the availability of cheap labour, India becomes a destination for labour-intensive projects. Moreover, large labour mobility across different occupations and regions, in recent times, has cut down wage differentials greatly and this has an impact for business which needs to be understood.

3. *Cultural Factors*

Social attitudes, values, customs, beliefs, rituals and practices also influence business practices in a major way. Festivals in India offer great business opportunity for certain industries like clothes and garments, jewellery, gift items, sweetmeats and many others, the list could be endless.

2.5.4 Technological Environment

Technological changes result when new ideas are applied to existing problems for the purpose of economic and social development. As with all economic and social changes, the acceptance of technological innovations takes a significant period of time, and it is also a reflection of rapidly increasing environmental turbulence that this time span is constantly decreasing.

Recent times have seen the development of new products and processes with increasing frequency. The uncertainties and slow pace of development of technological innovations make investments on them high risk. The potential pay-off for winning innovations can, however, be significant and continues to encourage investments in research and development.

Looking carefully, the competitive advantage of Japan in many industrial and business areas would be largely attributable to their emphatic and consistent policy on research and development. Some of the attributable factors would be:

- There is a national policy for setting up research and development facilities for new technologies.
- There are tax and interest incentives for investors in designated technologies.
- Capital is made available for designated technological investments at preferred interest rates.
- Investment in new technology is readily accepted by employees.
- Growth in new technologies has become part of the culture and economic system.

Future developments have a wide range of technologies to draw upon. Predicting new developments and innovations will be increasingly important. Consider the problem of depleting oil resources and their increasing costs. Consider the simultaneous awareness about issues related to pollution control and environmental protection. We are beginning to see a new emphasis on energy-related technologies that have yet to become commercial. Consider the following classes of technology:

- Nuclear fission (breeder reactors)
- Nuclear fusion
- Synthetic hydrocarbon fuels
- Solar energy
- Wind energy.
- Geothermal energy
- Hydrostatic, tidal, and ocean current energy
- Temperature gradient energy
- Advanced energy storage and distribution

Today deciding, which of these technologies research and development funds should be invested in, is a real gamble.

Let us look at the impact of technology on business and industry a little more closely. With today's modern computers, it is possible to obtain strategic information on a real time basis for the first time in history. Most of the major merchandises now have point-of-sale electronic accounting systems. When a customer order is checked out at the cash register, the inventory is immediately updated. An order for a replacement item is entered if necessary, and the impact on sales, profitability, and other strategic variables immediately calculated. In this final analysis, as unsettling as many of the advances is that most of these results in the production of goods and services at lower cost both in terms of time and materials. If economic endeavour has a single goal, this has to be it.

2.5.5 Environmental

Environment conservation and protection is such an issue, which has gained prominence because of deteriorating environmental balance which is threatening the sustainability of life and nature. Largely, business is also held responsible for such situations as emissions from industries polluting the air, excessive chemical affluent drained out in water making it poisonous and unfit for use, usage of non-biodegrable resources affecting the bio-chain adversely and exposure of employees to hazardous radiations bringing their life in danger. All these issues have been taken very seriously by different stakeholders in the society including the government and legislations and movements are creating pressure for an environment friendly business. These have far reaching implications for business ranging from the kind of business, the product being manufactured, how it is manufactured, how friendly it is for mankind and nature. Big companies like Coca Cola and Pepsi have also come

under the purview of the society regarding the environmental hazards. If the charges framed on them of using chemicals beyond accepted levels for manufacturing soft drinks are confirmed, they will have a black spot on their names and business. So, it is important for the organizations to take care of the environment as well.

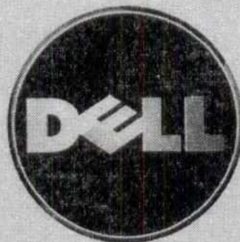
2.5.6 Legal Environment

Licensing policies, quota restrictions, import duties, Forex regulations, restrictions on FDI flows, controls on distribution and pricing of commodities together made business difficult during license permit raj before the liberalisations policy of 1991. However, with economic reforms things have been changed and legal formalities have been eased. Nevertheless with globalization, the rules of competition, trade mark rights and patents, WTO rules and implications, price controls and product quality laws and a number of other legal issues in individual countries have become important and therefore they need to be included while understanding the general environment.

Caselet: PEST Analysis of DELL Computers

A PEST analysis is an analysis of the external macro-environment that affects all firms. P.E.S.T. is an acronym for the political, economic, social, and technological factors of the external macro-environment. Such factors usually are beyond the firm's control and sometimes presents themselves as threats. For this reason, one can say that "PEST" is an appropriate term for these factors. However, changes in the external environment also create new opportunities and the letters sometimes are rearranged to construct the more optimistic term of STEP analysis.

Many macro-environmental factors are country-specific and a PEST analysis will need to be performed for all countries of interest. In the following text, the analysis of the political, economic, social and technological factors leads to a description of the macro environment of Dell computers.



Political Environment

The political environment of a country is influenced by the political organizations such as philosophy of political parties, ideology of government or party in power, nature and extent of bureaucracy influence of primary groups, etc. Political factors include government regulations and legal issues determining the conditions under which companies have to operate. In this field, DELL computers has to

Check your progress

Fill in the Blanks

4. .... factors throw light on the nature and direction of the economy in which a firm operates.
5. .... are usually governed by the relative affluence of market segments and firms must understand them through the level of disposable income and the tendency of people to spend.
6. .... change results when new ideas are applied to existing problems for the purpose of economic and social development.

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face certain restraints. Like in all markets, DELL computers is also subject to laws that regulate virtually all aspects of their business, including such areas as health, safety, pollution, and advertising and labelling requirements. Problems can arise in countries where political stability is not guaranteed, no matter whether companies operate production facilities or if they do business with that country through exports. Many countries still have restrictive policies which are maintained to protect domestic manufacturers and production. Such policies often hinder foreign companies from entering into these markets. The only possibility to do business in those countries is to establish partnerships with local companies, where they are additionally forced to accept minority shares and to provide money and technological know-how. However, DELL computers see great potential in those countries which loose their restrictions.

Economic Environment

Economic environment refers to the aggregate of the nature of the economic system of the country, the structural anatomy of the economy to economic policies of the government, the organization of the capital market, the nature of factor endowment, business cycles, the socio-economic infrastructure, etc. The economic environment includes factors and trends related to income levels and the production of goods and services. The economic environment consists of "the factors that affects consumers" buying power and spending patterns". DELL computers expect a growth of approximately ten percent over the next five years. This growth is influenced by the economic situation in a specific country, having an impact on the purchasing power of potential customers. Additionally, changing inflation rates and currency fluctuations also determine the profitability of a company. Another economic factor that can adversely affect the computer industry is the exchange rate of the home currency, all branded products are imported, and their prices vary with changes in the relative exchange rates. Also with an increase in income, consumers are likely to purchase higher quality products rather than to simply purchase more. Thus, there is a growing market for good quality and higher priced computers.

Social Environment

The social dimension or environment of a nation determines the value system of the society which, in turn affects the functioning of the business. The social environment includes all the factors and trends related to the groups of people, including their number, characteristics, behaviour, and growth projections. Because consumer markets have specific needs and problems, changes in the social environment can affect markets differently. Trends in the social environment might increase the size of some markets, decrease the size of others, or even help to create new markets. The potential for internet growth is huge in Asian countries like India and China, giving foreign computer companies, the

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opportunities to expand into a new market. DELL computers has to invest in door-to-door or face-to-face operations to gain consumer's faith and trust in the company and product.

The national demand for DELL computers is dependent on the educational level prevailing in a specific country. The higher the educational standard, more is the demand. Furthermore, Dell computers get more and more involved in daily life. Today, children already get familiar with the use of computers at a very young age, representing a generation that will hardly live and work without a computer in the future. Additionally, the brand image of a computer and lifestyle trends get more and more decisive for the purchasing decision. DELL computers adapts to this trend, e.g. by offering a wider range of notebooks and by trying to create a strong brand name.

Technological Environment

The technological environment includes factors and trends related to innovations that affect the development of new products or the marketing process. These technological trends can provide opportunities for new product development; affect how marketing activities are performed, or both. For example, advances in information and communication technologies provide new products for firms to markets, and the buyers of these products often use them to change the way they market their own products. Using these technologies products can help marketers be more productive. In the computer industry, technology continues to be smaller and faster than ever. Providing access to technologies developed by institutions has proven a key government resource. It was observed that by the year 2000, mainland China's annual PC production would reach 7.6 million making it the third largest in the world. The internet is a great opportunity for companies to get into their public domain as well as a fast way to tailor services to its customer segments. A threat in the technological segment to DELL'S business in China is that access to the internet is costly.

Source: *Docstoc.com*

2.6 ENVIRONMENTAL SCANNING TECHNIQUES

In its prospective mode, scanning focuses on identifying precursors or indicators of potential environmental changes and issues. Environmental scanning is thus aimed at alerting the organization to potentially significant external impingement before it has been fully formed or crystallised. Successful environmental scanning draws attention to possible changes and events well before occurrence, allowing time for suitable strategic actions.

In the prospective mode, scanning is a part of an analytical activity and becomes useful when environmental changes take time to unfold, as is indeed often the case. For

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example, social-value shifts do not occur in just days or even months, technological changes often take years, as may the developement of large-scale social movements. Scanning in the current and retrospective sense identifies surprises or strategic issues requiring immediate action on the part of an organization. In this case, the outputs may feed directly into assessment and influence the current and imminent strategic decisions of an organization. Scanning frequently detects environmental change that is already in an advanced stage; a change that has been already evolved to a point where it is actual or imminent rather than potential at some, as yet unspecified date. Thus a scan of demographic data might pick up population movement or changes in household formation.

Scanning frequently unearths actual or imminent environmental changes because it explicitly focuses an organization's antennae on areas that may previously have been paid neglected, or it challenges the organization to rethink areas to which it had earlier been paid attention.

2.6.1 ETOP (Environmental Threats and Opportunities Profile) Analysis

Environmental threat and opportunity profile is referred as ETOP profile. It identifies the relevant environmental factors. Such factors might be general environmental factors and task environment factors. Thereafter, it is necessary to identify their nature. Some factors are positive to the organization whereas others are negative. Therefore, it is necessary to find out their impact to the organization. Positive, neutral, and negative sign in ETOP denotes the relevant impact of environmental factors.

2.6.2 SWOT/TOWS Analysis

SWOT stands for Strengths, Weaknesses, Opportunites and Threats. A SWOT analysis summarizes the key issues from the external environment and the internal capabilities of an organization which become critical for strategy development. The aim through this is to identify the extent to which the strengths and weaknesses are relevant to and capable of dealing with changes in the business environment. It also reflects whether there are opportunities to exploit further the competencies of the organization.

Strengths

Strength is a resource, skill, or other advantage in relation to the competition and the needs of markets a firm serves or anticipates serving. A strength is a distinctive competence that affords the firm a comparative advantage in the market place. Financial resources, image, market leadership and buyer-supplier relations are the examples.

Weaknesses

A weakness is a limitation or deficiency in resources, skills, and capabilities that seriously impedes effective performance. Facilities, financial resources, management

capabilities, marketing skills, and brand image could be the sources of weakness. Strengths and weaknesses can be identified by careful analysis of the firm's activities.

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A few examples follow:

(a) **Source of profit**

- If the bulk of the profits are generated from a single product, that in itself is a symptom of weakness deserving further analysis: What is its status in the life cycle? What is the status of competition? What is the status of industry sale? Product quality? Is the market share currently enjoyed commensurate with quality, competition, price status? Is there any scope for further growth in sales through product development?
- What is the scope of development for other profit-yielding products?
- Is the technology continuing to be up-to-date or is there a risk, of better technology appearing in the market place in the near future? What is the danger of substitution?
- Is the product itself in any danger of becoming obsolete or out-of-style in the near future?

(b) **Risks**

The analysis of the source of profits invariably exposes the risks looming ahead. These may be:

- For the product, the dangers of obsolescence;
- The danger of being priced-out because of quality, cost, and backdated technology;
- The danger of substitution.
- For the market, the style and desirability changing; the danger of new competition coming in; the market itself reaching maturity or its decaying sale, etc.

Opportunities

An opportunity is a major favourable situation in the firm's environment. Key trends represent one source of opportunity. The identification of a previously overlooked market segment, changes in competitive or regulatory circumstances, technological changes, and improved buyer and/or supplier relationships could represent opportunities for the firm.

Threats

A threat is a major unfavourable situation in the firm's environment. It is a key impediment to the firm's current and/or desired future position. The entrance of a

new competitor, slow market growth, increased bargaining power of key buyers or suppliers, major technological change, and changing regulations could represent major threats to the firm's future success.

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The Threats-Opportunities-Weaknesses-Strengths (TOWS) Matrix

The Threats-Opportunities-Weaknesses-Strengths (TOWS) Matrix is an important matching tool that helps the managers to develop four types of strategies: SO Strategies, WO strategies, ST Strategies, and WT Strategies. Matching key external and internal factors is the most difficult part of developing a TOWS Matrix and requires good judgement, and there is no best set of matches. Note that in Figure 2.1 the first, second, third, and fourth strategies are SO, WO, ST, and WT Strategies respectively. SO Strategies use a firm's internal strengths to take advantage of external opportunities. All managers would like their organizations to be in a position where internal strengths can be used to take advantage of trends and events in the environment. For example, *Mercedes Benz,* with its technical know-how and reputation for quality (internal strengths), could take advantage of the increasing demand for luxury cars (external opportunity) by building a new manufacturing plant (SO Strategy). Organizations generally will pursue WO, ST, or WT Strategies in order to get into a situation where they can apply SO Strategies. When a firm has major weaknesses, it will strive to overcome them, making them strengths. When an organization faces major threats, it will seek to avoid them in order to concentrate on opportunities. WO Strategies aim at improving internal weaknesses by taking advantage of external opportunities. Sometimes key external opportunities exist, but a firm has internal weaknesses that prevent it from exploiting those opportunities. For example, there may be a high demand for electronic devices to control the amount and timing of fuel injection in automobile engines (opportunity), but a certain auto parts manufacturer may lack the technology required for producing these devices (weakness). One possible WO Strategy would be to acquire this technology by forming a joint venture with a firm having competency in this area. An alternative WO strategy would be to hire and train people with the required technical capabilities.

ST Strategies use a firm's strengths to avoid or reduce the impact of external threats. This does not mean that a strong organization should always meet threats in the external environment head-on. *General Motors* found this out in the 1960s when *Ralph Nader* (an external threat) exposed safety hazards of the *Corvair Automobile*. GM used its strength (size and influence) to ridicule Nader, and the direct confrontation caused more problems than expected. In retrospect, this ST Strategy was probably inappropriate for GM at that time.

WT Strategies are defensive tactics directed at reducing internal weaknesses and avoiding environmental threats. An organization faced with numerous external threats and internal

weaknesses may indeed be in a precarious position. In fact, such a firm may have to fight for its survival, merge, retrench, declare bankruptcy, or choose liquidation.

Note that a TOWS Matrix is composed of nine cells. As shown, there are four key factor cells, four strategy cells, and one cell that is always left blank (the upper left cell). The four strategy cells, labeled SO, WO, ST, and WT, are developed after completing four key factor cells, labeled S, W, O, and T. There are eight steps involved in constructing a TOWS matrix

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TOWS Matrix

	Always leave blank	1. 2. 3. 4. 5. 6. 7. 8. 9. 10.	**STRENGTHS-S** List strengths	1. 2. 3. 4. 5. 6. 7. 8. 9. 10.	**WEAKNESSES-W** List weaknesses
1. 2. 3. 4. 5. 6. 7. 8. 9. 10.	**OPPORTUNITIES-O** List opportunities	1. 2. 3. 4. 5. 6. 7. 8. 9. 10.	**SO STRATEGIES** Use strengths to take advantage of opportunities	1. 2. 3. 4. 5. 6. 7. 8. 9. 10.	**WO STRATEGIES** Overcome weaknesses by taking advantage of opportunities

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1.	**THREATS — T**	1.	**ST STRATEGIES**	1.	**WT STRATEGIES**
2.		2.		2.	
3.		3.		3.	
4.		4.		4.	
5.	List threats	5.	Use strengths to avoid threats	5.	Minimize weaknesses and avoid threats
6.		6.		6.	
7.		7.		7.	
8.		8.		8.	
9.		9.		9.	
10.		10.		10.	

Fig. 2.1: Tows matrix

1. List the firm's key external opportunities.
2. List the firm's key external threats.
3. List the firm's key internal strengths
4. List the firm's key internal weaknesses.
5. Match the internal strengths with external opportunities and record the resultant SO Strategies in the appropriate cell.
6. Match internal weaknesses with external opportunities and record the resultant WO strategies.
7. Match internal strengths with external threats and record the resultant ST Strategies.
8. Match internal weaknesses with external threats and record the resultant WT Strategies.

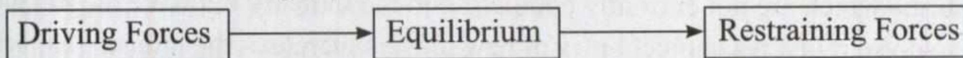
Some other example of SO, WO, ST, and WT Strategies are given as follows:

1. A strong financial position (internal strength) coupled with unsaturated foreign markets (external opportunities) could suggest the market development to be an appropriate SO Strategy.
2. A lack of technical expertise (internal weakness) coupled with a strong demand for computer services (external opportunity) could suggest the WO Strategy of acquiring a high-tech computer company.
3. A strong distribution system (internal strength) coupled with intense government deregulation (external threat) could suggest concentric diversification to be a desirable ST Strategy.
4. Poor product quality (internal weakness) coupled with unreliable suppliers (external threat) could suggest backward integration to be a feasible WT Strategy.

5. The purpose of each Stage 2 matching tool is to generate feasible alternative strategies, not to select or determine which strategies are the best. Not all of the strategies developed in the TOWS Matrix, therefore will be selected for implementation.

2.6.3 Industry Driving Forces

The change forces are known as "driving forces" and the forces that resist change are known as "restraining forces" as shown below:



Managers who are trying to implement changes must analyse this balance of driving and restraining forces and then strengthen the driving forces or weaken the restraining forces sufficiently so that the change can take place.

Michael Porter (Harvard Business School Management Researcher) designed various vital frameworks for developing an organization's strategy. One of the most renowned model among managers for making strategic decisions is the five competitive forces model that determines industry structure. According to Porter, the nature of competition in any industry is personified in the following five forces:

1. Threat of new potential entrants
2. Threat of substitute product/services
3. Bargaining power of suppliers
4. Bargaining power of buyers
5. Rivalry among current competitors

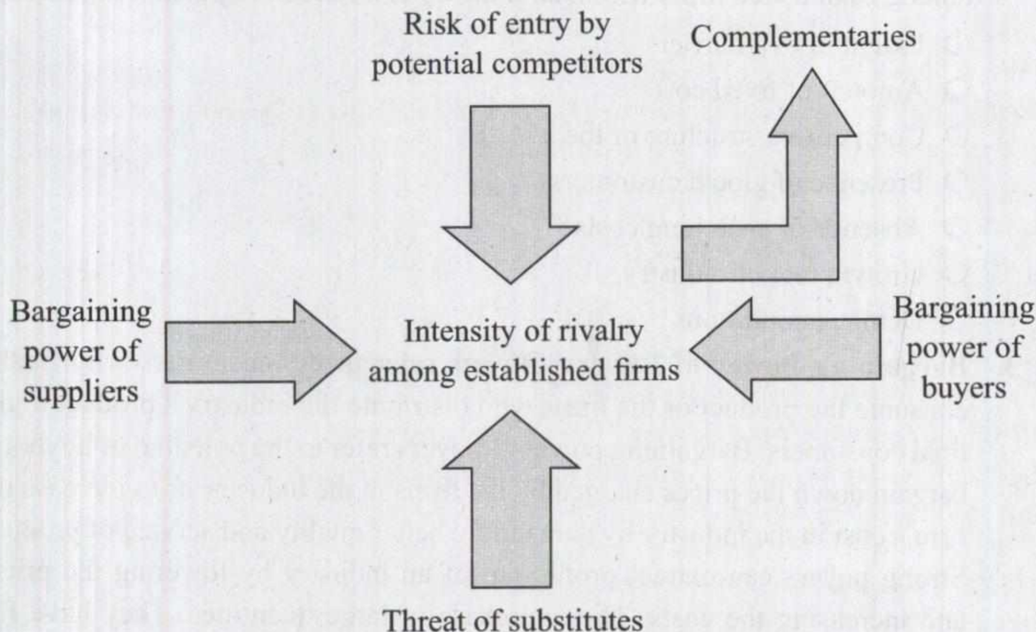


Fig. 2.2: Porter's five forces model

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The five forces mentioned above are very significant from point-of-view of strategy formulation. The potential of these forces differs from industry-to-industry. These forces jointly determine the profitability of industry because they shape the prices which can be charged, the costs which can be borne, and the investment required to compete in the industry. Before making strategic decisions, the managers should use the five forces framework to determine the competitive structure of the industry.

Let's discuss the five factors of Porter's model in detail:

1. **Risk of Entry by Potential Competitors:** Potential competitors refer to the firms which are not currently competing in the industry but have the potential to do so if given a choice. Entry of new players increases the industry capacity, begins a competition for market share and lowers the current costs. The threat of entry by potential competitors is partially a function of extent of barriers to entry. The various barriers to entry are:
   - Economies of scale
   - Brand loyalty
   - Government Regulations
   - Customer Switching Costs
   - Absolute Cost Advantage
   - Ease in distribution
   - Strong Capital Base
2. **Rivalry among Current Competitors:** Rivalry refers to the competitive struggle for market share between firms in an industry. Extreme rivalry among established firms poses a strong threat to profitability. The strength of rivalry among established firms within an industry is a function of following factors:
   - Extent of exit barriers
   - Amount of fixed cost
   - Competitive structure of the industry
   - Presence of global customers
   - Absence of switching costs
   - Growth rate of industry
   - Demand conditions
3. **Bargaining Power of Buyers:** Buyers refer to the customers who finally consume the product or the firms who distribute the industry's product to the final consumers. Bargaining power of buyers refer to the potential of buyers to bargain down the prices charged by the firms in the industry or to increase the firm's cost in the industry by demanding better quality and service of product. Strong buyers can extract profits out of an industry by lowering the prices and increasing the costs. They purchase in large quantities. They have full information about the product and the market. They emphasize upon quality

products. They pose credible threat of backward integration. In this way, they can be regarded as a threat.

4. **Bargaining Power of Suppliers:** Suppliers refer to the firms that provide inputs to the industry. Bargaining power of the suppliers refer to the potential of the suppliers to increase the prices of inputs (labour, raw materials, services, etc) or the costs of industry in other ways. Strong suppliers can extract profits out of an industry by increasing costs of firms in the industry Suppliers products have a few substitutes. Strong suppliers' products are unique. They have high switching cost. Their product is an important input to buyer's product. They pose credible threat of forward integration. Buyers are not significant to strong suppliers. In this way, they can be regarded as a threat.
5. **Threat of Substitute Products:** Substitute products refer to the products having ability of satisfying customer's needs effectively. Substitutes pose a ceiling (upper limit) on the potential returns of an industry by imposing a setting a limit on the price that the firms can charge for their product in an industry. Lesser the number of close substitutes a product has, greater is the opportunity for the firms in industry to raise their product prices and earn greater profits (other things being equal).

The power of Porter's five forces varies from industry-to-industry. Whatever be the industry, these five forces influence the profitability as they affect the prices, the costs, and the capital investment essential for survival and competition in the industry. This five-forces model also helps in making strategic decisions as it is used by the managers to determine industry's competitive structure.

2.6.4 Key Success Factors

One useful way to affect operational control is to focus on "key success factors". Key success factors identify performance areas that must receive continuous management attention. These are the factors that are of greatest importance in implementing the company's strategies. Examples of key success factors focused on internal performance include: (1) improved productivity, (2) high employee morale, (3) improved product/ service quality, (4) increased earnings per share, (5) growth in market share, and (6) completion of new facilities.

Each key success factor must have measurable performance indicators. Management of 1-2-3 from Lotus, for example, identified product quality, customer service, employee morale, and competition as the four key determinants of the success of their strategy to rapidly expend Lotus's software offerings. They identified three measures to monitor and control each key success factor as follows:

For product quality

- Performance data versus specifications
- Percentage of product returns
- Number of customer complaints

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For customer service:

- Delivery cycle in days
- Percentage of orders shipped complete
- Field service delays

For employee morale:

- Trends in employee attitude survey.
- Absenteeism versus plan.
- Employee turnover trends.

For competition:

- Number of firms competing directly.
- Number of new products introduced.
- Percentage of bids awarded versus standard.

Key success factors succinctly communicate the critical elements for which operational managers must be responsible in making the strategy successful. Because their achievement requires the successful performance of several key individuals, these factors can be a foundation for teamwork among managers in meeting the company's strategic objectives.

Budgeting, scheduling, and monitoring key success factors are important means to control the implementation of strategy at the operational level of the company. Common to each operational control system is the need to establish the measurable standards and to monitor the performance against these standards.

2.6.5 Competitive Environment Analysis

The competitive environment refers to the situation which an organization faces within its specific area of operation, and this can be understood at an industry level or with respect to smaller groups called Strategic groups. Generally understood, an industry in the economy is recognized as a group of firms producing the same principal products or more broadly the group of firms producing products that are close substitutes for each other and in a given industry, different organizations have different intermediate basis of understanding its relative position with respect to other organizations in the industry.

Organizations within an industry with similar strategic characteristics, following similar strategies or competing on similar bases are called strategic groups. These characteristics for a particular group will be different from those in other strategic groups in the same industry or sector. There may be different characteristics, which distinguish between strategic groups. For example size, breadth of product range, geographical coverage, quality or service levels or marketing spend. The concept of strategic groups when used, helps in understandings who are the most direct

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competitors of any given organization and on what basis competitive rivalry is likely to take place within each strategic group.

2.6.6 Value Chain Analysis

The concept of value relates to how the ultimate consumer/user views the organization's products/source in relation to competitive offerings. An analysis of resources must be undertaken in a way that establishes how such competitive differences are achieved throughout the value chain. Most of the value activities will be performed outside the organization (e.g. by suppliers, channels or customers). It is essential that the organization's own value chain is seen in this wider context.

A detailed discussion on value chain analysis is given under previous unit.

2.6.7 Benchmarking

Benchmarking is a comparative method where a firm finds practices in an area and then attempts to bring its own performance in that area in line with the best practice. Best practices are the benchmarks that should be adopted by a firm as the standards to exercise operational control. Through this method, performance can be evaluated continually till it reaches the best practice level. In order to excel, a firm shall have to exceed the benchmarks. In this manner, benchmarking offers the firms a tangible method to evaluate performance.

2.7 METHODS AND TECHNIQUES USED FOR ORGANIZATIONAL APPRAISAL

The analysis of internal resources has five objectives.

1. To outline the role that a company's resources and capabilities play in the formulation of its strategy and to pinpoint their crucial importance in establishing competitive advantage.
2. To show how the firm can identify, classify, and explore the characteristics of its base of resources and capabilities.
3. To develop a set of criteria to analyse the potential of the firm's resources and capabilities to yield long-term profits/returns.
4. To identify weaknesses in resources in the context of the external environment and strategy formulated, and to show how strategy is concerned not only with deploying the firm's resources to yield returns over the long-term but also with augmenting and strengthening the firm's resources and capabilities.
5. To develop a framework for resource analysis that integrates the above themes into a practical guide for the formulation of strategies that build competitive advantage.

The following are the key techniques used for Organizational appraisal:

2.7.1 Value Chain Analysis

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The concept of value relates to how the ultimate consumer/user views the organization's products/source in relation to competitive offerings. An analysis of resources must be undertaken in a way that establishes how such competitive differences are achieved throughout the value chain. Many of the value activities will be performed outside the organization (e.g. by suppliers, channels or customers). It is essential that the organization's own value chain is seen in this wider context.

The value chain framework as shown in Figure 2.3 is a typical value chain within an organization. Using this framework, it is possible to analyze the organization's contributions of individual activities in a business and how they add up to the overall level of customer value, the firm produces. It is divided into two parts i.e. primary activities and support activities. The primary activities constitute of the following:

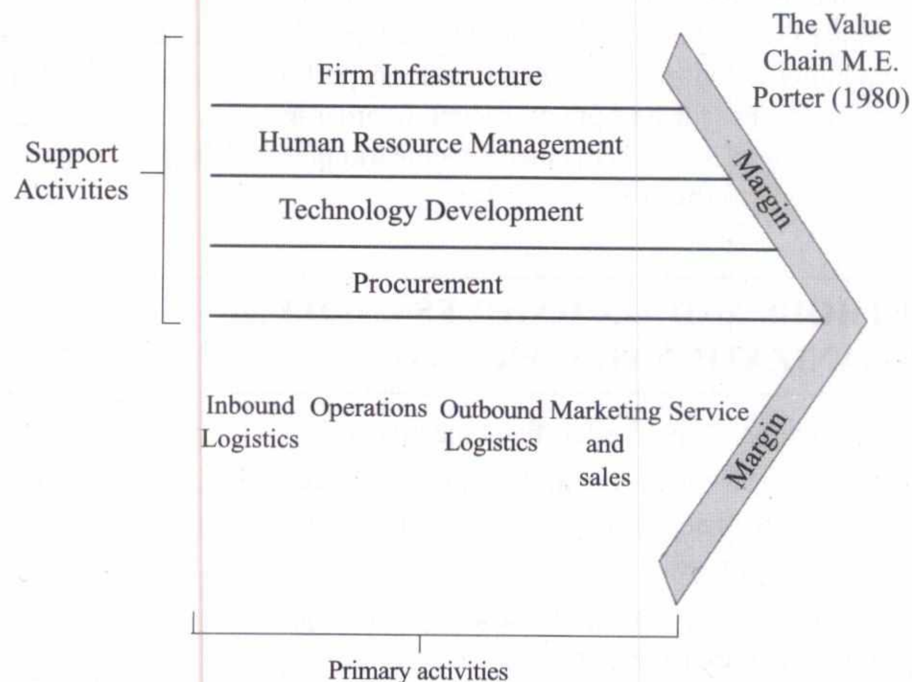


Fig. 2.3: The value chain framework

1. Inbound Logistics are the activities concerned with receiving, storing and distributing the inputs to the product or service. They include materials handling, stock control, transport etc.
2. Operations transform these various inputs into the final product or service –machining, packaging, assembly testing, etc.
3. Outbound Logistics collect, store and distribute the products to customers. For tangible products, this would be warehousing, materials handling, transportation

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etc. In the case of services, they may be more concerned with the arrangements for bringing customers to the service if it is a fixed location (e.g. entertainment show).

4. Marketing and Sales make consumers/ users aware of the product or service so that they are able to purchase it. This includes sales administration, advertising, selling and so on.
5. Service activities help improving the effectiveness or efficiency of primary activities.

Each of the groups of primary activities is linked to support activities which are as follows:

(a) **Procurement:** This is a process for acquiring the various resource inputs to the primary activities and this is present in many parts of the organization.

(b) **Technology Development:** These are the key technologies attached to different activities which may be directly linked with the products or with processes or with resource inputs.

(c) **Human Resource Management:** This is an area involved with recruiting, managing, training, developing and rewarding people within the organization. This categorization of the activities as primary or support may be found true for organizations in general, however it is always better to have one's own judgment in identifying activities for particular firms in consideration.

2.7.2 Financial and Non-financial Analysis

The following points discuss the tools of financial and non-financial analysis.

1. Financial Analysis

Financial analysis is useful at all the stages of resource analysis, and not only as part of value analysis. For example, the forecasting of the cash requirements of different activities is an important measure of how well an organization's resources are balanced (portfolio analysis). Equally, financial measures such as profitability, gearing, or liquidity are used to compare the performance of a company with its competitors as means of analysing that company's resource position.

The key value activities change over time. Key financial measures to monitor will change accordingly. Thus, as a new product launch goes through introduction, growth, and decline, the key measures shift through sales volume, profit/unit, and cash flow. Exhibit 2.2 provides some financial ratios in relation to a company's strategic resources and capabilities.

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Exhibit 2.2

Financial Ratio	Used to Assess
Return on capital	Overall measure of Performance
Cost structure	
Sales profitability	Sales performance.
Gross margin	Direct costs
Sales expenses	Indirect cost
Overheads	Value of expenditure
Labour	1. Labour productivity
	2. Relation to 'value'
Materials	1. Purchasing policies
	2. Quality of materials
	3. Relation to 'value'
Dividends	Power of shareholders
Interest	Capital structure
Asset turnover	
Fixed assets	Capital intensity
Stock	1. Cash tied up
	2. Delivery performance
	3. Risk of write-offs
Debtors	1. Cash tied up
	2. Use of credit
	3. Risk of bad debits
Creditors	Choice of suppliers
Liquidity	Short-term risk
Capital structure (gearing)	1. Long-term risk
	2. Using available resources

2. Non-financial Analysis

Often it has been found that quantitative analysis alone is not sufficient to understand any organization's strengths and weaknesses. Particularly the factors related to human resources, organizational culture and its temperament towards creativity and innovation are few which can be understood only through qualitative information. Qualitative information also supplements quantitative data in understanding basic

concepts of what customers' value and how they feel about a given product. The exhibit provides you with few relevant guiding points to assess a broad range of important qualitative factors.

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2.7.3 Balanced Scorecard

Balanced scorecard method is based on the identification of four key performance measures of customer perspective, internal business perspective, innovation and learning perspective, and the financial perspective. This method is balanced approaches to performance measurement as a range of parameters are taken into account for evaluation.

The four perspectives of the Balanced Scorecard

Financial →	EVA/Profitability/Growth
Customer →	Differentiation/Cost/Quick Response
Operations →	Product Development/Demand Management/ Order Fulfillment
Organizational →	Leadership/Organizational Learning/Ability to changing

Source: *Adapted from Miller Allex, Strategic Management*

Looking at the flow chart, we can very well understand that performance as assessed in one perspective supports performance in other areas and therefore we need to consider all four perspectives in carrying out a complete internal analysis.

Methods of assessing internal strengths and weaknesses Having understood the two frameworks which guide managers for assessing any organization's strengths and weaknesses, now we will discuss quantitative and qualitative factors, which help in the internal assessment of any organization. However, since every organization's creation of wealth is the primary goal, any assessment has to focus on measuring the variety of means that contribute to the creation of wealth. The creation of wealth depends largely on providing superior value for customers and this is possible when the organizations have efficient and effective operations with necessary capabilities. The required capabilities depend on the employees, their skills and motivation levels.

2.7.4 Key Factor Rating

Key factor rating is a method that takes into account the key factors in several areas and then sets out to evaluate the performance on the basis of these factors. This is quite a comprehensive method as it takes a wholistic view of the performance areas in an organization.

2.8 DEVELOPING STRATEGIC ADVANTAGE PROFILE

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Based on the detailed information presented in the Organizational Capability Profile (OCP), it is possible to prepare a concise chart of a strategic advantage profile SAP. An SAP can also be prepared directly when students analyse cases during classroom learning without making a detailed OCP. A SAP provides a picture of the more critical areas, which can have a relationship to the strategic posture of the firm in the future.

In Exhibit 2.3, we provide an illustration of an SAP drawn for a hypothetical company in the bicycle industry. The main business of the company is in the sports cycle manufacturing for domestic and exports markets. This example relates to a hypothetical company but the illustration is realistic

Exhibit 2.3: Strategic Advantage Profile (SAP) for a Bicycle Company

Capability factor		Competitive strengths or weaknesses
1. Finance	↓	High cost of capital; reserves and surplus position unsatisfactory
2. Marketing	→	Fierce competition in industry; company's position secure at present
3. Operations	↑	Plant and machinery in excellent condition; captive sources for parts and components available
4. Personnel	→	Quality of managers and workers comparable with that in competitor companies
5. Information	→	Computerised management information system in the process of development; traditional functions such as payroll and accounting computerized
6. General management	↑	High quality and experienced top management generally adopts a proactive stance with regard decision-making

Note: *Up arrow indicates strength, down arrow indicates weakness, while horizontal arrow indicates a neutral position.*

The SAP presented in Exhibit 2.3 clearly shows the strengths and weaknesses in different functional areas. For instance, the company has to use its strengths in the area of operations and in general management areas. A gap is also indicated in the finance area which has to be overcome, if the company has to survive and prosper in a competitive industry like bicycle manufacturing. In marketing, though the competitive position is secure at present, it cannot be said that it will remain so in the future. The SAP indicates that strategists can initiate action to cover the gaps and use the company's strengths in the light of environmental threats and opportunities.

The probable line of action to be adopted for covering the gaps and using the company's strengths in the light of environmental threats and opportunities is found through considering strategic alternatives at the corporate-level and the business level and exercising a strategic choice.

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2.9 IDENTIFICATION OF CRITICAL SUCCESS FACTOR (CSF)

Critical success factors are those which contribute to organization's success in a competitive environment and therefore the organization needs to improve on them since poor results may lead to declining performance. Organizations depending on the environment operate in and their own internal conditions can identify relevant critical success factors. However, literature on strategy suggests few general sources of critical success factors that have been identified based on empirical research. They are as follows:

2.9.1 Profiling Strength

Industry-specific critical success factors are the factors critical for the performance of an industry. For example, in hospitality industry excellent and customized service, wide presence and an excellent booking and reservation system is critical. Similarly for airline industry fuel efficiency, load factors and an excellent reservation system are critical.

2.9.2 Strength and Weakness

Strength is an inherent capability which an organization can use to gain strategic advantage. A weakness, on the other hand, is an inherent limitation or constraint which creates a strategic disadvantage for an organization. Financial strength, for example, is a result of the availability of sources of finance, low-cost of capital, efficient use of funds, and so on. Another example is of a weakness in the operations area which results due to inappropriate plant location and layout, obsolete plants and machinery, uneconomical operations, and so on. In the following sections, we will take up a detailed discussion of the strengths and weaknesses in different functional areas within an organization.

2.9.3 Competencies

Critical success factors for a firm may also be determined by its relative position with respect to its competitors. In some instances, industry is dominated by few large players and their actions lead to determining the critical success factors for the industry which smaller players have to ensure for their success. For example, for the pathological laboratory centers earlier the CSF was authentic, hygienic and scientific testing facilities until few big players added service features like door-to-door sample collection or home-delivery of reports. Very soon approachability and ease became the additional CSFs for the players.

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General environment viewed from any of the dimensions may determine the CSFs. Most simply put in years of drought, availability of water is at premium and having access to assured source of water can become the critical success factor for many industries like tanneries, etc. For the same industry considering environmental norms, adhering to anti pollution standards becomes critical success factor.

2.9.4 Uniqueness and Success Quotient

Uniqueness of resources is another important critical success factor. Unique resources as defined in the strategy texts are those resources, which critically underpin competitive advantage. Their ability to provide value in product is better than competitor's resources and is difficult to imitate. Just think of a big music stores like *Planet M* or the ones from RPG group, the scale and range of collection of music provides uniqueness to these stores as compared to any of the traditional music shop. Some organizations have patented products or services that give them advantage for some service organizations, unique resources may be particularly the people working in that organization.

Case Study: Critical Success Factors of Dell

DELL's direct-to-customer business model is the key to the company's dramatic growth and success and has focused on selling directly to customers. This helps eliminate the middleman and offers customers more powerful configured systems than most competitors. The direct model enables DELL to develop a thorough understanding of customer expectations, which strengthens customer relationships and increases customer satisfaction and loyalty. One of the characteristics that distinguishes DELL from its other competitors is that DELL provides the mode to custom the computers of the customers' choice and taste and deliver the system to the customer as it is the most crucial and critical success factor behind DELL Computers. Therefore, DELL must be aware of the benefits they wish to realize, how it will be realized and ensure only investments of appropriate amounts of resources to obtain benefits. DELL relies on reputation in the US market of award-winning service and a high-quality product. Customer satisfaction and consumer awareness surveys should be conducted quarterly to ensure the image that DELL creates for itself within a culture has not existed before there is a positive one. Market timing and speed are critical to many industries, such as technology, pharmaceuticals, and some consumer goods.

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DELL's competencies are their cost/ strategy. In consistent to being an integrated cost leader, DELL produces high quality PCs by using their Direct Business Model approach and sells them directly to the customers. DELL's weaknesses are single sourcing, new product and reliance on corporate clients. DELL has opportunities like the potential growth in overseas markets as the industry is still in growth phase and the entering of the new product markets. Henceforth, the threats are technological changes that are expected since technology can only get better. Global economy and increased competition in which DELL's financial ratios identifies that the company is no-match for their competitors. DELL's most competitive force is the Direct-Model concept which helped them to reach above-average returns and remains in business today. Customers have developed a brand-name loyalty to Dell because of their low-cost differentiation strategy. The huge threat faced by DELL is the fierce competition in the industry. If DELL enters into a merge, it would not have to spend so much money and time trying to develop a face-to-face communications, if the local business is already well known. According to cost saving benefits, the company will not have to spend any extra money for product development, if it is already developed. Furthermore, there will be plenty of joint financial support. If there is synergy between the two companies, their market penetration will be that much easier to achieve. DELL initiated the ways to overcome its weaknesses and used its strengths to gain advantages over its competitors- by careful analyzing of the factors that contribute to the company's success in business strategies that had implemented created the path for the company's continued success. Today, in fast-moving areas such as wireless and hybrid cars, you can see how market windows open and close relatively quickly. The economic rents accrue to those who can thoughtfully scan the market environment and quickly spot profitable opportunities. One of the hottest areas in technology and business process today is around predictive analytics, which is all about helping companies to determine their next move and stay one step ahead of the competition. One way to analyze a competitor's strategic intent and migration path is to assess its expansion plans into new market segments and offering sets. For example, think of Dell moving into printers or Microsoft moving into the CRM space.

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Although time-to-market is important, it doesn't mean doing things haphazardly or without some analysis. Often, companies do get stuck in an "analysis-paralysis" loop and don't take action until it's too late. In companies, strategy means nothing more than a plan based largely on today's markets, today's product set and today's competitors and emphasizing the financial forecast and such a strategy may successfully identify opportunities to capture the upside of the current business over the next few years but can rarely anticipate extreme competition, much less show how to reposition a business to face it. Effective strategy should steer companies toward where an industry is heading and where it is today.

Dell Corporate Strategies

The economic activities performed by Dell encompass the development, manufacturing, sale and support of personal computers and computer-related products.

Since its foundation, the company has been based on the Direct Model, i.e. Dell has always tried and managed to create direct relationships with its customers, by selling products directly and without the participation of intermediaries. The sale has always taken place through a telephone service or via the Internet.

In order to accomplish its goal of being as fast as possible in the delivery of the customized products it supplies, Dell has created an ample network of manufacturing plants around the world. The corporation is present in each continent and in most of the states with national basis. For instance, in Italy, Dell has established its Italian department – *Dell Italia.*

What's more, Dell has forced many of its suppliers to set their plants alongside its own facilities in order to minimize the time of the transactions that occur between them and the company itself. They provide the company with a constant flow of information regarding their inventory levels and, by contrast, the company contributes to the development of their performance and the decrease of their costs of production by providing them with the necessary training to keep reducing costs at a fast pace and meet its strict targets. In fact, suppliers are quarterly met and classified according to their levels of reliability, cost, quality and speed, and these are compared to their industry average. Once a supplier meets the targets imposed by Dell, the latter establishes a long-lasting relationship in which even know-how and new achievements are shared so as to enable Dell to meet its financial fundamentals and ensure the highest return-on-investment to its shareholders.

Dell Business Strategies

Business strategy involves leveraging the core competencies of the organization to achieve a defined high-level goal or objective. It also includes the analytic and

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decisionmaking process surrounding what to offer (e.g., products and services), when to offer (timing, business cycles, etc), and where to offer (e.g., markets and segments) as a competitive plan.

Michael Dell, chairman and chief executive officer, summed up the strategy by saying, "We are combing Dell's Internet expertise, and our unique ability to organize resources around distinct needs to create new Web-related capabilities. The Dell advantage is based on direct relationships, low cost, speed to market and e-commerce expertise as much as it is on Internet hardware, appliances and customers services and support."

Included in this strategy is "Service Provider Direct," a three tiered package of service, support and co-marketing programs designed specifically to benefit ISPs, ASPs and Web hosting companies. Current program users include Exodus Communications Inc., NaviSite Inc. And Corio Inc.

A second initiative is Infrastructure Computing. Dell announced PowerApp appliance servers designed for specific Internet infrastructure tasks such as Web serving, caching and load balancing. This will provide customers will a full range of server and storage solutions for building their Internet infrastructure.

"Expert Services is a new and expanded service offering that will help businesses take advantage of the power of the Internet, according to Dell.

Its fourth initiative is Universal Access, a drive enabling universal Internet access through a combination of leading-edge devices, connectivity offerings and access choices, encompassing narrow band services, broadband offerings and wireless products and services.

The final aspect of Dell's business strategy is *Dell Ventures*. Through strategic links to companies with technologies, products and services that create breakthroughs related to the Internet, Dell will provide equity investments and incubation services for selected early-stage private companies to accelerate the development.

Supply Chain Strategy

Supply chain strategy also focuses on driving down operational costs and maximizing efficiencies. For example, an organization may choose a strategy directed at supplier management as a way to remain competitive. By providing a clear purpose, the organization keeps sight of the strategy and is able to devise tactical steps to achieve these goals. Another reason for having a supply chain strategy is to establish how you work with your supply chain partners, including suppliers, distributors, customers, and even your customers' customers. As the marketplace becomes more competitive, it is critical to reinforce existing relationships and work together. And for all these reasons, a well executed supply chain strategy results in value creation for the organization.

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Marketing Strategies

The Dell marketing strategy was simple and basic. Cut out the middleman and sell the product cheaper. Offer great customer service by giving the customer exactly what they want.

There you have it. That is how Dell is about to become the largest company in the world selling computers. They did it by building computers made to order for the customer by handling all the sales (retail) themselves. If you want a Dell computer you can only get it from Dell. Their marketing strategy allowed them to pass the savings onto the customer.

Source: *Scribd.com*

2.10 SUMMARY

- Understanding of the strengths and weaknesses of an organization comes through the internal analysis.
- This is important for any organization in order to respond effectively to its environment both micro and macro. Also understanding them enables the organization to stretch its capabilities and create new opportunities for themselves.
- However managers have to work hard in assessing the capabilities using frameworks like Critical success factors and the Value chain analysis and analyzing them through quantitative or qualitative analysis.
- The macro environment in which all organizations operate broadly consist of the economic environment, the political and legal environment, the socio-cultural aspects and the environment related issues like pollution, sustainability, etc.
- The term PESTEL analysis is useful to consider, as a starting point, what environmental influences have been particularly important in the past.
- In democratic countries, business excesses generated disenchantment and a growing demand for more humanist goals to equalise income distribution and end poverty and suffering.
- Economic factors throw light on the nature and direction of the economy in which a firm operates.
- Interest rates, inflation rates, unemployment rates and trends in the gross national product, government policies and sectoral growth rates are other economic influences it must consider.
- Social attitudes, values, customs, beliefs, rituals and practices also influence business practices in a major way.
- Technological change results when new ideas are applied to existing problems for the purpose of economic and social development.

- Environment conservation and protection is an issue, which has gained prominence because of deteriorating environmental balance which is threatening the sustainability of life and nature.
- Environmental scanning is aimed at alerting the Organization to potentially significant external impingement before it has fully formed or crystallised.
- Environmental threat and opportunity profile is referred as ETOP profile. It identifies the relevant environmental factors.
- A SWOT analysis summarizes the key issues from the external environment and the internal capabilities of an organization which become critical for strategy development.

2.11 KEY TERMS

- **Competencies:** Competencies refers to the ability of an organization to perform.
- **Core Competencies:** Core competencies are the activities or processes that critically underpin an organization's competitive advantage.
- **Critical Success Factors:** Critical success factors are those which contribute to organization's success in a competitive environment.
- **Financial Quantitative Analysis:** Financial quantitative analysis traditionally financial analysis emphasizes on the study of financial ratios which is commonly known as ratio analysis.
- **Industry Norms:** Industry norms compare the performance of an organization in the same industry or sector against a set of agreed performance indicators.
- **Benchmarking:** Benchmarking compares an organization's performance against 'the best in class' performance.
- **SWOT:** SWOT stands for Strengths, Weaknesses, Opportunities and Threats.

2.12 ANSWERS TO 'CHECK YOUR PROGRESS'

1. It is basically to evaluate the firm's own capacities and to meet the requirements of existing activities efficiently and effectively; and also to meet the challenges or threats indicated on the basis of external appraisal.
2. The organisational resources are the formal systems and structures as well as informal relations among groups.
3. Synergy is the idea that the whole is greater or lesser than the sum of its parts. It is also expressed as the two-plus-two-is equal to-five-or-three effect.

4. Economic
5. Consumption patterns
6. Technological

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2.13 QUESTIONS AND EXERCISES

Short Answer Questions

1. Define internal appraisal.
2. Write a short note on Critical Success Factor (CSF).
3. Define PESTLE.
4. What are the key economic factors influencing the business strategy?
5. Write a short note on SWOT analysis.
6. Define benchmarking.

Long Answer Questions

1. Describe the internal environment and organizational capabilities in various functional areas.
2. Discuss the analysis of areas of strategic edge.
3. Explain the environmental factors influencing the strategy formulation?
4. What are the key environmental scanning techniques?
5. Write a note on Porter's "Five Force Model".
6. Discuss the key methods and techniques used for organizational appraisal?
7. Discuss the meaning and scope of critical success factors.

UNIT 3 STRATEGIC ANALYSIS AND CHOICES

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Structure

3.0 INTRODUCTION

The firm's present strategies, objectives, and mission coupled with the external and internal audit information, provide a basis for generating and evaluating feasible alternative strategies. Unless a desperate situation faces the firm, alternative strategies will likely represent incremental steps to move the firm from its present position to a desired future position. Strategies analysis and choice largely involves making subjective decisions based on objective information. The chapter introduces important concepts that can help strategists generate feasible alternatives, evaluate those alternatives, and choose a specific course of action.

Strategists never consider all feasible alternatives that could benefit the firm, because there are an infinite number of possible actions and an infinite number of ways to implement those actions. Therefore, a manageable set of the most attractive alternative strategies must be developed. The advantages, disadvantages, trade-offs, costs, and

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benefits to these strategies should be determined. This section discusses the process that many firms use to determine an appropriate set of alternative strategies.

Identifying and evaluating alternative strategies should involve many of the managers and employees who earlier assembled the organizational mission statement, performed the external audit, and conducted the internal audit. Representatives from each department and division of the firm should be included in this process, as was the case in previous strategy-formulation activities. Recall that involvement provides the best opportunity for managers and employees to gain an understanding of what the firm is doing and why, and to become committed to helping the firm accomplish its objectives.

3.1 UNIT OBJECTIVES

After going through this unit, you will be able to:

- Define strategic trinity
- Discuss the area and scope of functional, business and corporate level strategy
- Discuss the Porter's framework of competitive strategies
- Know the different techniques of corporate restructuring.

3.2 STRATEGIC TRINITY

Strategies will exist at a number of levels in an organization. Individuals may say they have a strategy – to do with their career, for example. This may be relevant when considering influences on strategies adopted by organizations, but it is not what is meant by corporate strategy.

Broadly the strategies can be classified into the following categories:

1. **Functional Strategies**

Planning alone cannot create massive mobilisation of resources and people and can never generate high quality of strategic thinking required in complex organizational context. For this to happen, the planning should be carefully dovetailed and integrated with significant administrative systems viz. management control, communication, information management, motivation, rewards, etc. It is also vital that all these systems are supported by organizational structure that defines various authority and responsibility relationships, among various members of the company and specifically at operational level. The culture of the organization should be accounted for, and these systems should find adaptability with the culture of the organization.

The managers at this level of product, geographic, and functional areas develop annual objective and short-term strategies. The strategies are designed in each area of research and development, finance and accounting, marketing,

human relations, etc. The responsibilities also include integrating among administrative systems and organizational structure and strategic and operational modes and seek for congruency between managerial infrastructure and the corporate culture.

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2. Business-Level Strategies

This level consists of primarily the business managers or the managers of Strategic Business units. Here the strategies are about how to meet the competitions in a particular product market and the strategies have to be related to a unit within an organization. The managers at this level translate the general statements of direction and intent churned out at corporate level. They identify the most profitable market segment, where they can excel, keeping in focus the vision of the company. The corporate values, managerial capabilities, organizational responsibilities, and administrative systems that link strategic and operational decision-making level at all the levels of hierarchy, encompassing all business and functional lines of authority in a company are dealt with at this level of strategy formulation. The managerial style, beliefs, values, ethics, and accepted forms of behaviour must be congruent with the organizational culture and at this level; these aspects are diligently taken care of by strategic managers.

3. Corporate-Level Strategies

In an organization, there are basically three levels. The top level of the organization consists of chief executive officer of the company, the board of directors, and administrative officers. The responsibility of the top management is to keep the organization healthy. This implies that their responsibility is to achieve the planned financial performance of the company in addition to meeting the non-financial goals viz. social responsibility and the organizational image. The issues pertaining to business ethics, integrity, and social commitments are dealt with, at this level of strategic decisions. The corporate level strategies translate the orientation of the stakeholders and the society into the forms of strategies for functional or business levels. By using portfolio approach, a set of natural and generic strategies are generated that must be considered by each business group, depending on their position in the industry attractiveness and competitive strength dimensions. This is the level where vision statement of the companies emerges.

3.3 FUNCTIONAL-LEVEL STRATEGIES

A functional strategy is the short-term game plan for a key functional area within a company. Such strategies clarify grand strategy by providing more specific details about how key functional areas are to be managed in the near future. Functional strategies must be developed in the key areas of marketing, finance, production/operations, R&D, and personnel. They must be consistent with long-term objectives and grand strategy. Functional strategies help in implementation of grand strategy by organizing and activating specific subunits of the company (marketing, finance,

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production, etc.) to pursue the business strategy in daily activities. In a sense, functional strategies translate thoughts (grand strategy) into action designed to accomplish specific annual objectives For every major subunit of a company, functional strategies identify and coordinate actions that support the grand strategy and improve the likelihood of accomplishing annual objectives.

The following are the key areas of preparing functional-level strategies:

3.3.1 Production-Level Strategies

Production/operations management (POM) is the core function in the business firm. POM is the process of converting input (raw material, supplies, people, and machines) into value-enhanced output. This function is most easily associated with manufacturing firms. However, it applies equally to all other types of business (including service and retail firms, for example).

Functional strategies in POM must guide decisions regarding: (1) the basic nature of the firm's POM system, seeking an optimum balance between investment input and production/operations output and (2) location, facilities design, and process planning on a short-term basis.

The facilities and equipment component of POM strategy involves decisions regarding plant location, size, equipment replacement, and facilities utilization that should be consistent with grand strategy and other operating strategies. Functional strategies for the planning and control component of POM provide guidelines for ongoing production operations. They are meant to encourage efficient organization of production / operations resources to match long-range, overall demand. Often this component dictates whether production / operations will be demand-oriented, inventory-oriented, or subcontracting-oriented. If demand is cyclical or seasonal, then POM strategy must ensure that production / operations processes are efficiently geared to this pattern. A bathing suit manufacturer would prefer inventories to be at their highest in the early spring, for example, not the early fall. If demand is less cyclical, a firm might emphasize producing to inventory, wanting a steady level of production and inventories. When demand fluctuations are less predictable, many firms subcontract to handle sudden increases in demand while avoiding idle capacity and excess capital investment.

Plans must be made for the levels of production or operations desired to fit the strategy. If rapid expansion is desired through internal means, does the firm has sufficient capacity to accommodate such expansion? Is the plant being used on overtime, double, or triple shifts? If retrenchment is under way, do we want to cut back production volume or keep the plant running and build inventories? These questions may call for a plant for long-term production vis-à-vis marketing plans. Generally, three options exist for scheduling capacity usage: demand matching, operations smoothing, and subcontracting. If demand is seasonal, for example, demand matching calls for producing output with the season. Operations smoothing calls for continuous production to meet average demand levels. Subcontracting allows a firm to maintain steady minimal levels of output while meeting peak periods

with output from subcontractors. Each of these approaches, of course, implies some trade-offs with respect to the costs of equipment, overtime, inventories, labour, maintenance, and subcontracting. When demand downturns occur, a plan to build inventory instead of retrenching becomes a major strategic decision.

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Exhibit 3.1: Functional Strategies in POM

Key operating strategies	Typical questions that should be answered by the functional strategy
Facilities and equipment	How centralized should the facilities be? (One big facility or several small facilities?) How integrated should the separate processes be? To what extent will further mechanization or automation be pursued? Should size and capacity be oriented toward peak or normal operating levels?
Purchasing	How many sources are needed? How do we select suppliers and manage relationships over time? What level of forward buying (hedging) is appropriate?
Operations planning and control	Should the work be scheduled to order or to stock What level of inventory is appropriate? How should the inventory be used (FIFO/LIFO) controlled, and replensihed? What are the key foci for control efforts (quality, labour cost, downtime, product usage, other)? Should maintenance efforts be preventive or breakdown oriented? What emphasis should be placed on job specialization? Plant safety? Use of standards?

As the plan is determined, there may remain a need or desire for longer-term capacity buildup. Here the options may include adding capacity, merging with another producer, or joint ventures. In any case, questions concerning the types of equipment, the amount of capacity, and the interface with existing units need to be addressed. Naturally, the overall size of a plant is of importance here and involves questions of economies of scale. This is partly determined by the technology employed but is also influenced by the production scheduling and the basic marketing strategy. A large, efficient plant may not be effective, if it is not producing the kinds of outputs called for by the strategy. Capacity planning is also related to the policy question regarding scheduling. If demand matching is used, then plant size is geared to the production of peak output; otherwise, capacity can be smaller.

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Assuming that a strategy of expansion is under way, another question of importance is where to locate plants of operations facilities. For instance, a major component in airline operations is the location of facilities for aircraft maintenance.

POM is a crucial functional area in implementing strategies. Traditionally, marketing and POM have been rivals. But they must coexist and work together, and their tasks must be coordinated through appropriate policies and plans, if any strategy, is to work. POM operating strategies must be coordinated with marketing strategy, if the firm is to succeed. Careful integration with financial strategy components (such as capital budgeting and investment decisions) and the personnel function are also necessary.

3.3.2 Marketing-Level Strategies

The role of the marketing function is to profitably bring about the role of products/ service in target markets for the purpose of achieving the business goals. Functional strategies in the marketing area should guide this endeavour in a manner consistent with the grand strategy and other functional strategies. Effective marketing strategies guide marketing managers in determining who will sell what, where, when, to whom, in what quantity, and how. Marketing strategies must therefore entail four components: product, price, place and promotion. Exhibit 3.2 illustrates the types of questions that operating strategies must address in terms of these four components.

Exhibit 3.2: Functional Strategies in Marketing

Key functional strategies	Typical questions that should be answered by the functional strategy
Products (or services)	Which products do we emphasize? Which products/services contribute most to profitability? What is the product/service image we seek to project? What changes should be influencing our customer orientation?
Price	Are we primarily competing on price? Can we offer other discounts or other pricing modifications? Are pricing policies standard nationally or is there regional control? What price segment are we targeting (high, medium, low, etc.)? What is the gross profit margin? Do we emphasize cost/demand or competition-oriented pricing?

Place	What level of market coverage is necessary? Are there priority geographic areas? What channels of distribution are key? What are the channel objectives, structure, and management? Should the marketing managers change their degree of reliance on distributors, sales representatives, and direct selling? What sales organization do we want? Is the sales force organized around territory, market or product?
Promotion	What are the key promotion priorities and approaches? Which advertising/communication priorities and approaches are linked to different products, markets and territories? Which media would be tne most consistent with the total marketing strategy?

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A functional strategy for the product component of the marketing function should clearly identify the customer needs the firm seeks to meet with its product and/or service. An effective functional strategy for this component should guide marketing managers in decisions regarding features, product lines, packaging, accessories, warranty, quality, and new product development. This strategy should provide a comprehensive statement of the product/service concept and the target market(s), the firm is seeking to serve.

This, in turn, fosters consistency and continuity in the daily activity of the marketing area. A product or service is not much good to a customer, if it is not available when and where it is wanted. So, the functional strategy for the place component identifies where, when, and by whom the product/services are to be offered for sale. The primary concern here is the channel(s) of distribution the combination of marketing institutions through which the products/services flow to the final user. This component of a marketing strategy guides decisions regarding channels (for example, single versus multiple channels) to ensure consistency with the total marketing effort.

The promotion component of marketing strategy defines how the firm will communicate with the target market. Functional strategy for the promotion component should provide marketing managers with basic guides for the use and mix of advertising, personal selling, sales promotion, and media selection. It must be consistent with other marketing strategy components and, due to cost requirements, closely integrated with financial strategy.

Functional strategy regarding the price component is perhaps the single most important consideration in marketing. It directly influences demand and supply, profitability, consumer perception, and regulatory response. The approach to pricing strategy may be cost-oriented, market-oriented, or competition (industry)-oriented.

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With a cost-oriented approach, pricing decisions center on total cost and usually involve an acceptable markup or target price ranges. Pricing is based on consumer demand (e.g., gasoline pricing in a deregulated oil industry) when the approach is market-oriented. With the third approach, pricing decisions are centered on those of the firm's competitors. Packaging can be an alternative competitive weapon in the strategy of the firm. If product stability is the strategy, packing changes (e.g., toothpaste in a pump, or shaving cream in a brush) can help to expand the pace of market penetration. Policies and plans must be made which inter-relate several aspects of the strategy. For instance, a policy of different prices for different customers (or a one-price policy) is one which can have an impact on the product and marketing strategy. As you will see later, plans and policies must also be set in relation to other aspects of the business- for instance, price is particularly critical in relation to volume-cost-profit conditions, which affect production and the financial condition.

3.3.3 Employee-Level Strategies

The strategic importance of functional strategies in the personnel area has become more widely accepted in recent years. Personnel management aids in accomplishing grand strategy by ensuring the development of managerial talent, the presence of systems to manage compensation and regulatory concerns, and the development of competent, well-motivated employees. Functional strategies in personnel should guide the effective utilization of human resources to achieve both the annual objectives of the firm and the satisfaction and development of employees. These strategies involve the following areas:

- Career development and counseling, performance evaluation, and training and development
- Compensation
- Labor/union relations and Equal Employment Opportunity Commission (EEOC) requirements
- Discipline; control, and evaluation

Operating strategy for recruitment, selection, and orientation guides personnel management decisions for attracting and retaining the motivated, productive employees. This strategy involves such questions as: What are the key human resources needs to support a chosen strategy? How do we recruit for these needs? How sophisticated should the selection process be? How should the new employees be introduced to the organization? The recruitment, selection, and orientation component of personnel strategy should provide basic parameters for answering these questions.

The development and training component should guide personnel actions taken to meet future human resource needs of the grand strategy. *Merrill Lynch*, a major brokerage firm, has a long-term corporate strategy of becoming a diversified financial service institution. In addition to handling stock transactions, *Merrill Lynch* is actively moving into such areas as investment banking, consumer credit, and venture capital. In support of these far-reaching, long-term objectives, *Merrill Lynch* has incorporated

extensive early-career training and ongoing career development programs to meet its expanding needs for personnel with multiple competencies.

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Functional strategies in the personnel area are needed to guide decisions regarding compensation, labour relations, EEOC requirements, discipline, and control to enhance the productivity and motivation of the work force. Involved are such concerns as; What are the standards for promotion? How should payment, incentive plans benefits, and seniority policies be interpreted? Should there be hiring preference? What are the appropriate disciplinary steps? These are the specific personnel decisions that operating managers frequently encounter. Functional strategies in the personnel area should guide such decisions in a way that is compatible with business strategies, strategies for other functional areas, and the achievement of annual objectives.

Some firms incorporate a long-term human resource plan as an integral component of the strategic plan. Human resources managers have become an integral component in the strategic management activity, particularly as firms engage in mergers or major retrenchments requiring significant changes in the work force. Thus requires forecasts of human resource needs (labor and management) in conjunction with other changes going on in the planning effort.

Doug Hall and Judith Richter emphasize that human resource managers need to foster more effective balancing of professional and private lives, since nearly 50 million people in the United States are now a part of two-career families. A corporate objective to become more "lean and mean" must today include consideration for the fact that a good homelife contributes immensely to a good work-life. You can count on baby-boomers to force the issue of family versus work onto the corporate agenda. Fully 73 per cent of all women age 25 to 34 now work for pay, as do half of all women with babies under one year old. For them and their husbands, child care, flexible hours, and job sharing are the pressing concerns.

The work/family issue is no longer just a "women's problem". Some specific measures that the firms are taking to address this issue are providing spouse relocation assistance as an employee benefit, providing company resources for family recreational and educational use, establishing employee country clubs, such as those at IBM and Bethlehem Steel, and creating family/work interaction opportunities.

Some organizations have developed "family days", when family members are invited into the workplace, taken on plant or office tours, dined by management, and given a chance to see exactly what other family members do each day. "Family days" are inexpensive and increase the employee's pride in working for the organization. Flexible working hours during the week is another human resource response to the need for individuals to balance work-life and homelife. The work/family topic is being made part of the agenda at meetings and thus is becoming discussable in many organizations.

Research indicates that the employees who are dissatisfied with the childcare arrangements are most likely to be absent or unproductive. Lack of adequate childcare

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in a community can be a deterrent in recruiting and retaining good managers and employees. Some benefits of on-site childcare facilities are improved employee relations, reduced absenteeism and turnover, increased productivity, enhanced recruitment, and improved community relations.

3.3.4 Financial

While most operating strategies guide implementation in the immediate future, the timeframe for financial functional strategies varies because strategies in this area direct the use of financial resources in support of the business strategies, long-term goals, and annual objectives. Financial operating strategies with longer time perspectives guide financial managers in long-term capital.

Exhibit 3.3: Functional Strategies in Finance

Key functional strategies	Typical questions that should be answered by the functional strategies
Capital Acquisition	What is an acceptable cost of capital? What is the desired proportion of short-and long-term debit; preferred and common equity? What balance is there between internal and external funding? What risk and ownership restrictions are appropriate? What level and form of leasing should be used in providing assets?
Capital allocation	What are the priorities for capital allocation projects? On what basis is the final selection of projects to be made? What level of capital allocation can be made by operating managers without higher approval?
Dividend and working capital management	What portion of earnings should be paid out as dividends? How important is dividend stability? Are things other than cash appropriate as dividends? What are the cash flow requirements; minimum and maximum cash balances? How liberal/conservative should the credit policies be? What limits, payment terms, and collection procedures are necessary? What payment timing and procedure should be followed?

The key finance strategies include the investment, use of debt financing, dividend allocation, and the firm's leaveraging posture. Operating strategies designed to manage working capital and short-term assets have a more immediate focus. Exhibit 3.3 highlights some key questions which the financial strategies must answer for successful implementation.

Long-term financial strategies usually guide capital acquisition in the sense that priorities change infrequently over time. The desired level of debt versus equity versus internal long-term financing of business activities is a common issue in capital acquisition strategy.

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For example, Delta Airline has a long-standing operating strategy that seeks to minimize the level of debt in proportion to equity and internal funding of capital needs. General Cinema Corporation has a long-standing strategy of long-term leasing to expand its theatre and soft-drink bottling facilities. The debt-to-equity ratios for these two firms are approximately 0.50 to 2.0, respectively. Both have similar records of steady profitable growth over the last 20 years and represent two different yet equally effective operating strategies for capital acquisition.

3.3.5 Innovation and Quality Strategies

With the increasing rate of technological change in most competitive industries, research and development (R&D) has assumed a key functional role in many organizations. In the technology-Intense computer and pharmaceutical industries, for example, firms typically spend between 4 and 6 per cent of their sales dollars on R&D. In other industries, such as the hotel/motel and construction industries, R&D spending is less than 1 per cent of sales. Thus, R&D may be a vital function – a key instrument of business strategy–although in stable, less innovative industries, R&D is less critical as a functional strategy than is marketing or finance.

Exhibit 3.4 illustrates the types of questions addressed by an R&D operating strategy. First, R&D strategy should clarify whether basic research or product development research will be emphasized. Several major oil companies now have solar energy subsidiaries with R&D strategy emphasis on basic research, while smaller competitors emphasize product development research.

Exhibit 3.4: Functional Strategies in R&D

R & D decision area	Typical questions that should be answered by the functional strategy
Basic research versus commercial development	To what extent should innovation and break-through research be emphasized? In relation to the emphasis on product development, refinement, and modification? What new projects are necessary to support growth?
Time horizon	Is the emphasis for short term or long term? Which orientation best supports the business strategy? Marketing and production strategy?
Organizational fit	Should R & D be done in-house or contracted out? Should it be centralized or decentralized? What should be the relationship between the R & D unit(s) and product mangers? Marketing Managers? Production Managers?

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Basic R & D posture	Should the firm maintain an offensive posture, seeking to lead innovation and development in the industry? Should the firm adapt a defensive posture, responding quickly to competitors developments?

Directly related to the choice of emphasis between basic research and product development is the time orientation for these efforts mandated by R&D strategy. Should efforts be focused on the near or the long term? The solar subsidiaries of the major oil companies have long-term perspectives, while their smaller competitors appear to be focusing on the immediate future. These orientations are consistent with each business strategy, if the major oil companies want to ensure their long-term position in the energy field, while the smaller companies want to establish a competitive niche in the growing solar industry.

R&D strategy should also guide organization of the R&D function. For example, should R&D efforts be conducted solely within the firm or should portions of the work be contracted outside? A closely-related issue is whether R&D should be a centralized or decentralized function.

3.4 BUSINESS LEVEL STRATEGIES

Business Level Strategies are now relatively commonplace. They are frequently found in annual reports and financial statements, or hanging in board rooms and reception areas or even summarized in the form of a motto and printed on company documents and invoices. A good business level strategy is a strategic management tool rather than a piece of organizational finery. The existence and use of business-level strategies can be closely linked to the desire for participation, by employees, in the management of organizations. These desires result in the need to imbue people with a common sense of purpose and method, hence these become the central features of most mission statements.

Michael E Porter is credited with extension pioneering work in the area of business strategies or, what he calls, competitive strategies. His writing in the form of books, research papers, and articles has deeply influenced contemporary thinking in the area of industry analysis, competitive dynamics, and competitive strategies. He is also considered a major proponent of the positioning school of strategy thought. We have adopted the approach suggested by him in order to discuss the different aspects related to business strategies in this chapter.

3.5 PORTER'S FRAMEWORK OF COMPETITIVE STRATEGIES

Michael Porter (Harvard Business School Management Researcher) designed various vital frameworks for developing an organization's strategy. One of the most renowned

Check Your Progress

1. What are the functional level strategies?
2. What do you mean by production/operation management?
3. What is the significance of preparing effective marketing strategies?

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models among managers for making strategic decisions is the five competitive forces model that determines industry structure. According to Porter, the nature of competition in any industry is personified in the following five forces:

1. Threat of new potential entrants
2. Threat of substitute product/services
3. Bargaining power of suppliers
4. Bargaining power of buyers
5. Rivalry among current competitors

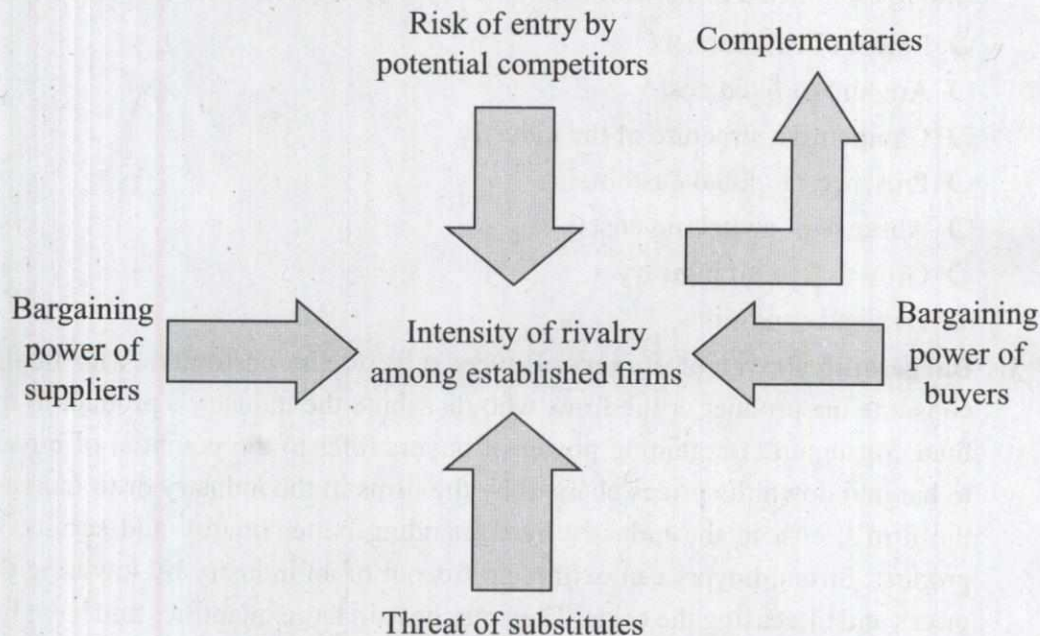


Fig. 3.1: Porter's five forces model

The five forces mentioned above are very significant from point-of-view of strategy formulation. The potential of these forces differs from industry-to-industry. These forces jointly determine the profitability of industry because they shape the prices which can be charged, the costs which can be borne, and the investment required to compete in the industry. Before making strategic decisions, the managers should use the five-forces framework to determine the competitive structure of the industry.

Let's discuss the five factors of Porter's model in detail:

1. **Risk of Entry by Potential Competitors:** Potential competitors refer to the firms which are not currently competing in the industry but have the potential to do so, if given a choice. Entry of new players increases the industry capacity, begins a competition for market share and lowers the current costs. The threat of entry by potential competitors is partially a function of extent of barriers to entry. The various barriers to entry are:
   - Economies of scale
   - Brand Loyalty

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- Government Regulation
- Customer Switching Costs
- Absolute Cost Advantage
- Ease-in Distribution
- Strong Capital Base.

2. **Rivalry Among Current Competitors:** Rivalry refers to the competitive struggle for market share between firms in an industry. Extreme rivalry among the established firms poses a strong threat to profitability. The strength of rivalry among established firms within an industry is a function of following factors:
   - Extent of exit barriers
   - Amount of fixed cost
   - Competitive structure of the industry
   - Presence of global customers
   - Absence of switching costs
   - Growth Rate of industry
   - Demand conditions.
3. **Bargaining Power of Buyers:** Buyers refer to the customers who finally consume the product or the firms who distribute the industry's product to the final consumers. Bargaining power of buyers refer to the potential of buyers to bargain down the prices charged by the firms in the industry or to increase the firm's, cost in the industry by demanding better quality and service of product. Strong buyers can extract profits out of an industry by lowering the prices and increasing the costs. They purchase in large quantities and have full information about the product and the market. They emphasize upon quality products. They pose credible threat of backward integration. In this way, they are regarded as a threat.
4. **Bargaining Power of Suppliers:** Suppliers refer to the firms that provide inputs to the industry. Bargaining power of the suppliers refer to the potential of the suppliers to increase the prices of inputs (labour, raw materials, services, etc.) or the costs of industry in other ways. Strong suppliers can extract profits out of an industry by increasing costs of firms in the industry Supplier's products have a few substitutes and are unique. They have high switching cost. Their product is an important input to the buyer's product. They pose credible threat of forward integration. Buyers are not significant to strong suppliers. In this way, they are regarded as a threat.
5. **Threat of Substitute products:** Substitute products refer to the products having ability of satisfying customer's needs effectively. Substitutes pose a ceiling (upper limit) on the potential returns of an industry by putting a setting a limit on the price that firms can charge for their product in an industry. Lesser the

number of close substitutes a product has, greater is the opportunity for the firms in industry to raise their product prices and earn greater profits (other things being equal).

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The power of Porter's five forces varies from industry-to-industry. Whatever be the industry, these five forces influence the profitability as they affect the prices, the costs, and the capital investment essential for survival and competition in the industry. This five-forces model also helps in making strategic decisions as it is used by the managers to determine industry's competitive structure.

The following are the key competitive strategies identified by Porter:

3.5.1 Cost Leadership Strategy

This generic strategy calls for being the low-cost producer in an industry for a given level of quality. The firm sells its products either at average industry prices to earn a profit higher than that of rivals, or below the average industry prices to gain market share. In the event of a price war, the firm can maintain some profitability while the competition suffers losses. Even without a price war, as the industry matures and prices decline, the firms that can produce more cheaply will remain profitable for a longer period of time. The cost leadership strategy usually targets a broad market.

Some of the ways that firms acquire cost advantages are by improving process efficiencies, gaining unique access to a large source of lower cost materials, making optimal outsourcing and vertical integration decisions, or avoiding some costs altogether. If competing firms are unable to lower their costs by a similar amount, the firm may be able to sustain a competitive advantage based on cost leadership.

Firms that succeed in cost leadership often have the following internal strengths:

- Access to the capital required making a significant investment in production assets; this investment represents a barrier to entry that many firms may not overcome.
- Skills in designing products for efficient manufacturing, for example, having a small component count to shorten the assembly process.
- High level of expertise in manufacturing process engineering.
- Efficient distribution channels.

Each generic strategy has its own risks, including the low-cost strategy. For example, other firms may be able to lower their costs as well. As technology improves, the competition may be able to leapfrog the production capabilities, thus eliminating the competitive advantage. Additionally, several firms following a focus strategy and targeting various narrow markets may be able to achieve an even lower cost within their segments and as a group gain significant market share.

3.5.2 Differentiation Strategy

A differentiation strategy calls for the development of a product or service that offers unique attributes that are valued by customers and that customers perceive to be better than or different from the products of the competition. The value added

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by the uniqueness of the product may allow the firm to charge a premium price for it. The firm hopes that the higher price will be more than covering the extra costs incurred in offering the unique product. Because of the product's unique attributes, if suppliers increase their prices, the firm may be able to pass along the costs to its customers who cannot find substitute products easily.

Firms that succeed in a differentiation strategy often have the following internal strengths:

- Access to leading scientific research.
- Highly skilled and creative product development team.
- Strong sales team with the ability to successfully communicate the perceived strengths of the product.
- Corporate reputation for quality and innovation.

The risks associated with a differentiation strategy include imitation by competitors and changes in customer tastes. Additionally, various firms pursuing focus strategies may be able to achieve even greater differentiation in their market segments.

3.5.3 Focus Strategy

The focus strategy concentrates on a narrow segment and within that segment attempts to achieve either a cost advantage or differentiation. The premise is that the needs of the group can be better served by focusing entirely on it. A firm using a focus strategy often enjoys a high degree of customer loyalty, and this entrenched loyalty discourages other firms from competing directly.

Because of their narrow market focus, firms pursuing a focus strategy have lower volumes and therefore less bargaining power with their suppliers. However, the firms pursuing a differentiation-focused strategy may be able to pass higher costs on to the customers since close-substitute products do not exist.

Firms that succeed in a focus strategy are able to tailor a broad range of product-development strengths to a relatively narrow market segment that they know very well.

Some risks of focus strategies include imitation and changes in the target segments. Furthermore, it may be fairly easy for a broad-market cost leader to adapt its product in order to compete directly. Finally, other focusers may be able to carve out sub-segments that they can serve even better.

Case Study on Business Strategies: Kodak's Transition to Digital

Kodak is one of the oldest companies on the photography market, established more than 100 years ago. This was the iconic, American organization, always on the position of the leader. Its cameras and films have become known all over the world for its innovations. Kodak's strength was it brand – one of the most

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recognizable and resources, that enabled creating new technologies. Since the formation of Kodak, the company has remained the world's leading film provider with virtually no competitors. That is until the arrival of Fuji Photo Film, which now surpasses Kodak in earnings per share and is viewed as the 'industries number two'. It is evident that there has been a significant shift from the use of traditional film cameras to a market fully fledged and saturated with modern and updated digital cameras and digital photographic tools.

Kodak

However over the time, the situation started to change for Kodak, as it has underestimated the changes on the market. There has been a significant shift from the use of traditional film cameras to a market fully fledged and saturated with modern and updated digital cameras and digital photographic tools. The age of digital technologies were emerging. The core business of Kodak– the film business, started to decline and some areas of the business started to be less profitable and filled with many competitors, especially cheap ones from Asia. Also, the prices of the digital cameras were falling.

Eastman Kodak is divided into three major areas of production.

1. Kodak's Digital and Film Imaging Systems section produces digital and traditional film cameras for consumers, professional photographers, and the entertainment industry.
2. Health Imaging caters to the health care market by creating health imaging products such as medical films, chemicals, and processing equipment.
3. The Commercial Imaging group produces aerial, industrial, graphic, and micrographic films, inkjet printers, scanners, and digital printing equipment to target commercial and industrial printing, banking, and insurance markets.

Issues and Challenges

The main issue behind this case is the problems faced by the Eastman Kodak Company in the process of changing to Digital technology in printing. It failed to establish market share and market leadership in the Digital sector. It is threatened with either immediate or rapid diversification in technology. Kodak has been extremely successful over the last century in film sales and film development. Now the time has come for the Eastman Kodak to respond to the challenges of digital cameras and also contemplate other issues as follows:

- Will the company's current strengths and capabilities to make Kodak as 'The Picture Company"?
- How serious are the weaknesses and competitive deficiencies?

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- Does the company have attractive market opportunities that are well suited with Kodak's resources? Does it have the internal resources to continue spending money investing in new technology?
- What type of strategy should it use to enter the digital camera business and how will Kodak leverage its strategic resources?
- Should it continue to research and produce digital camera technology alone, or look for partners?
- How will it cope with their existing and new competitors and how will it build a strategic advantage over other companies? Can Kodak once again dominate the world market?

What Went Wrong at Kodak?

Kodak started facing difficulties in 1984, when the Japanese firm *Fuji Photo Film Co*. invaded on Kodak's market share as customers switched to their products after launching a 400-speed colour film that was 20 per cent cheaper than Kodak's. Secondly, during 1980s the company failed to recognize the change in the environment and instead followed and sticked to a business model that was no longer valid for the post-digital age. After the management realized the change and reacted accordingly but it was too late.

Kodak's Strength

Kodak's strength can take several forms as follows:

- **Valuable Intangible Assets:** Kodak's strengths were–its brand equity and distribution presence. After almost a century of global leadership in the photographic industry, Kodak possessed brand recognition and worldwide distribution. Kodak could bring new products to consumers' attention and to support these products with one of the world's best known and most widely respected brand names as a huge advantage in the market where technological change created uncertainty for consumers. Kodak's brand reputation was supported by its massive, worldwide distribution presence – primarily through retail photography stores, film processors, and professional photographers.
- **Competitive Capabilities:** Prior to 1990s, Kodak had invested huge in R&D. Moreover, its century of innovation and development of photographic images gave Kodak tremendous depth of understanding of recording and processing images. Central to Kodak's imaging capability was its colour management capability. In the digitizing colour and transferring digital images to paper, Kodak possessed a powerful set of complementary technologies in sensing, colour management and thermal printing.

- **Market Advantage:** Through its wider distribution network, it has been able to maintain a huge market coverage and accessibility. It had worldwide distribution presence – primarily through retail photography stores, film processors, and professional photographers.

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Company's Competence and Competitive Capabilities

- **Competency:** Eastman Kodak has been Leveraging competencies in film and paper media, colour management. It has been known for the best quality films and cameras worldwide. Its journey of more than 100 years has helped to gain the experience and excel in its endeavour. The organizational changes like decentralization and accountability that *George Fisher* made, helped increase speed of manufacturing and product development, i.e. short product development cycles. Secondly, a strength could be also considered Kodak's favourable corporate image (and implicitly a significant brand equity) that results from the values which are said to lead the staff's behaviours ("respect for the dignity of the individual, integrity, trust, credibility, continuous improvement and personal renewal, recognition and celebration"), a transparent management which allows shareholders to have a realistic and up-to-date image of the operations performed, strong Human Resources policies and commitment to the community.
- **Core Competency:** Eastman Kodak was a highly integrated company that did its own R&D and manufactured its own parts. Changing global markets and cost pressures in the 1980s and 1990s threatened the way of doing business. So the knowledge, company's intellectual capital are also affected and repercussion is proficiency in its core competency started diminish. *George Fisher*, CEO in 1993, refocused the company on core competencies and joined the trend of outsourcing with close relationships to suppliers and announced a new explicit social contract as part of the restructuring effort. By 1997, the company could not grow out of its competitiveness problems like major price competition from its biggest international competitor, Fuji, which was engaged in a major price-cutting campaign aimed at increasing its market share internationally and particularly in U.S. markets. In response, Kodak made more significant changes designed to reduce its costs and to recapture market share in the company's core products. But all these attempts only lead to decrease market share and declining profit.
- **Distinctive Competency:** Firstly, the brand image of the company that had been built since century was the distinctive competency for Kodak. Before the digital age, its distinctive competencies were films and Cameras and its sister concern for its chemical technology.

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Strategies of Eastman Kodak

- Vertical integration combined with continuous innovation and product development. Speed is also required cutting cycle times in manufacturing and product development.
- To systematize and accelerate product development and improve product-launch, quality, Kodak introduced a new product development methodology called "Manufacturing Assurance Process"(MAP).
- Joint venture with HP, Microsoft to introduce new products that required in the market. Collaborate with expert to enhance the competency.
- Digital strategy was to create greater coherence among Kodak's multiple digital projects.
- Previously they had diversification strategy but later Fisher focused in Imaging business.

Source: *Scribd.com*

3.6 LOCATION AND TIMING TACTICS: CONCEPT AND IMPORTANCE

A tactic is a sub-strategy. It is a specific operating plan detailing how a strategy is to be implemented in terms when and where it is to be put into action. By their nature, tactics are narrower in their scope and shorter in their time horizon than are strategies. We shall consider here the two tactics of timing (when) and market location (where) used in formulating and implementing business strategies.

3.6.1 Timing Tactics

A business strategy of low-cost differentiation may be essentially a right move but only if it is made at the right time. The recognition of time as a strategic weapon and a source of strategic advantage came about in the late-1980s as a result of the ideas proposed by George Stalk Jr., the head of innovation and marketing at the Boston Consulting Group. The first company to manufacture and sell a new product or service is called the pioneer or the first-mover firm. The firms which enter the industry subsequently are late-mover firms. Sometimes an intermediate category of second-movers is also considered to include those firms which reach immediately to the first-movers. Each industry has its first-movers, second-movers and late-movers only, as second-movers, howsoever quick they might be to react, are in any case late-movers.

Consider the example of Parle which is the first-mover in the mineral water industry in India which has attracted companies, such as, Coca-Cola (with the Kinley brand) and Pepsi (with the Aquafina brand). Parle has dominated a major share of the mineral

water market leading to its Bisleri brand becoming generic to the product category. A case of a late-mover in this industry is Nestle which planned to introduce its brand Pure Life by the end of 2000. Likewise, in the mutual funds industry, Unit Trust of India (UTI), set up in 1964, is the first-mover with a clear lead of several years over other mutual funds in the public and private sectors. IIM, Ahmedabad is the first-mover in the autonomous institutions segment in the management education industry.

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3.6.2 Location Tactics

Another important aspect of business tactics is the market location. The location tactics are concerned with the issue of where to compete. By this is meant for the target market the firm aims at while applying its business strategies. Every industry has a number of rims that offer the same or substitute products or services. The total market share in an industry is carved up by these firms. One firm has the largest market share, some others firms have a relatively larger market share, a few others have a small market share, and there are firms that operate only on the fringes and not in the mainstream markets. On the basis of the role that firms play in the target market, market location tactics could be of four types: leader, challenger, follower, and nichers. As you will note, the essence of these tactics has been derived from military science. This is understandable since the competitive industries are virtual battlefields for competing firms. At this point, let us recall that the term 'strategy' too is a gift to management studies from military science. A brief description of the four types of market location tactics follow below.

1. **Market Leaders:** Market leaders are the firms that have the largest market share in the relevant product market and usually lead the industry in factors, such as, technological developments, product and service attributes, price benchmarks, or distribution channel design. In order to take up the market leader position and to retain it, Kotler proposes these three strategies (we would prefer to call these "approaches" to distinguish these from "strategy" which has a much broader meaning for us in business policy and strategic management):
   - Expanding the total market through new users, new uses, and more usage,
   - Defending the market share through position defense, flank defense, counteroffensive defense, mobile defense and contraction defense,
   - Expanding the market share through the enhancement of operational effectiveness by means of new product development, raising manufacturing efficiency, improving product quality, providing superior support services, or increasing marketing expenditure.
2. **Market Challengers:** Market challengers are the firms that have the second, third or lower ranking in the industry. These firms can either challenge the market leaders or choose to follow them. When they seek to challenge the market leader, they do so in the hope that they would be able to gain the market share. The tactics adopted by the market challenger have several components. First,

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the challenger has to define the objective and the opponents, choose a general attack strategy, and then choose a specific attack strategy. The most common objective of the challengers is to increase the market share, but it could also have a somewhat devious aim, say to drive the opponent out of the industry. A general attach strategy could be of five types:

- *Frontal attack* involving matching the opponent in terms of the product, price, promotion, and distribution,
- *Flank attack* involving challenging the opponent's weak or uncovered geographical or segmental areas,
- *Encirclement attack* involving a grand move to capture the opponent's market share through means, such as, launching an advertising blitzkrieg making an unbeatable product-related offering, or presenting a unique service guarantee,
- *Bypass attack* involving ignoring the opponent and attacking the easier markets by means of diversifying into unrelated products, moving into new geographical areas or leapfrogging into new technologies.
- *Guerrila attack* involving small, intermittent attacks to harass and demoralise the opponent firm, and eventually secure a firm foothold in the industry. This could be done by means of price cuts, price discounts, intensive comparative advertising, or initiating legal action.

3. **Market Followers:** Market followers are the firms that imitate the market leaders but do not upset the balance of competitive power in the industry. They prefer to avoid direct attack, keep out of the way of other firms, and reap the benefits of the innovations made by the market leaders through imitation. The market followers may adopt four broad strategies as under.
   - *Counterfeiter strategy* involving duplicating the market leader's product and packaging and selling it in the black market.
   - *Cloner strategy* involving emulating the market leader's products, name, and packaging.
   - *Imitation strategy* involving copying certain things from the market leader while retaining some other features, such as, pricing, a packaging or advertising.
   - *Adapter strategy* involves adapting one's own products to those of the market leader and selling them in different markets.
4. **Market Nichers:** Market nichers are the firms that carve out a distinct niche for themselves, which has been left uncovered by the other firms in the industry, or a niche that is of little or no interest to others. The niche strategies are akin to focus the business strategies as they target a market position that is small and unique and requires special competencies in order to be served. There are several means by which the specialization for serving a niche market can be developed. Excelling in providing a special product or service attribute, serving

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a distinct geographical area, of offering customised products or services to a selected group of customers are some such means. Market niche strategies carry the risks that we have identified for focus business strategies. For instance, a market leader may choose to expand its own market coverage to serve a niche thereby negating the advantages enjoyed by the market nicher. Market nichers have to adopt three strategies which are as under.

- *Creating niches* involves looking for ways and means by which niches can be identified or created in an industry.
- *Expanding niches* involves enhancing the coverage of the present niche to include similar market niches or new niches.
- *Protecting niches* involves shielding the niches served from the attacks by other firms in the industry.

3.7 BUILDING AND USE OF CORE COMPETENCE

Core competency is a unique skill or technology that creates distinct customer value. For instance, core competency of Federal express (Fed Ex) is a logistics management. The organizational unique capabilities are mainly personified in the collective knowledge of people as well as the organizational system that influences the way in which the employees interact. As an organization grows, develops and adjusts to the new environment, so do its core competencies also adjust and change. Thus, core competencies are flexible and developing with time. They do not remain rigid and fixed. The organization can make maximum utilization of the given resources and relate them to new opportunities thrown by the environment.

Resources and capabilities are the building blocks upon which an organization create and execute value-adding strategy so that an organization can earn reasonable returns and achieve strategic competitiveness.

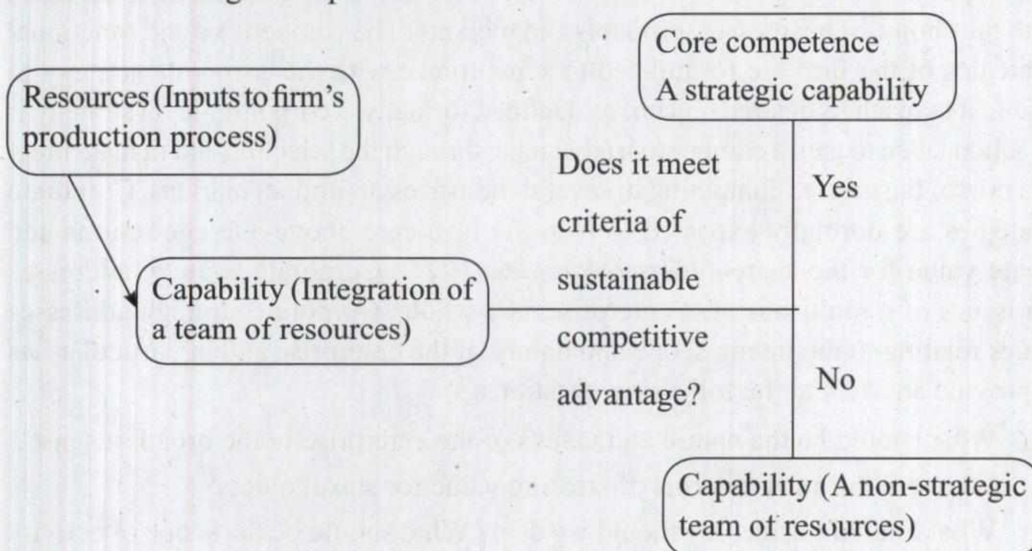


Fig. 3.2: Core competence decision

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Resources are the inputs to a firm in the production process. These can be human, financial, technological, physical or organizational. The more unique, valuable and firm specialized the resources are, the more possibly the firm will have core competency. Resources should be used to build on the strengths and remove the firm's weaknesses. Capabilities refer to organizational skills at integrating it's team of resources so that they can be used more efficiently and effectively.

Organizational capabilities are generally a result of organizational system, processes and control mechanisms. These are intangible in nature. It might be that a firm has unique and valuable resources, but if it lacks the capability to utilize those resources productively and effectively, then the firm cannot create core competency. The organizational strategies may develop new resources and capabilities or it might make stronger the existing resources and capabilities, hence building the core competencies of the organization.

Core competencies help an organization to distinguish its products from it's rivals as well as to reduce its costs than its competitors and thereby attain a competitive advantage. It helps in creating customer value. Also, core competencies help in creating and developing new goods and services. Core competencies decide the future of the organization. These decide the features and structure of globally competitive organization. Core competencies give way to the innovations. Using core competencies, new technologies can be developed. They ensure delivery of quality products and services to the clients.

3.8 CORPORATE-LEVEL STRATEGIES

Corporate strategy is essentially a blueprint for the growth of the firm. The corporate strategy sets the overall direction for the organization to follow. It also spells out the extent, pace and timing of the firm's growth. Corporate strategy is mainly concerned with the choice of businesses, products and markets. The competitive and functional strategies of the firm are formulated to synchronize with the corporate strategy to enable it to reach its desired objectives. Defined formally, a corporate-level strategy is an action taken to gain a competitive advantage through the selection and management of a mix of businesses competing in several industries or product markets. Corporate strategies are normally expected to help the firm earn above-average returns and create value for the shareholders *(Markides, 1997)*. Corporate strategy addresses the issues of a multi-business enterprise as a whole. Corporate strategy addresses issues relating to the intent, scope and nature of the enterprise and in particular has to provide answers to the following questions:

- What should be the nature and values of the enterprise in the broadest sense?
- What are the aims in terms of creating value for stakeholders?
- What kind of businesses should we deal? What should be the scope of activity in the future so what should we divest and what should we seek to add?

- What structure, systems and processes will be necessary to link the various businesses to each other and to the corporate centre?
- How can the corporate centre add value to make the whole worth more than the sum of the parts?

There are four types of generic corporate strategies. They are:

1. Stability strategies
2. Expansion strategies
3. Retrenchment strategies
4. Combination strategies

3.8.1 Stability Strategy

Stability strategy is a strategy in which the organization retains its present strategy at the corporate level and continues focusing on its present products and markets. The firm stays with its current business and product markets; maintains the existing level of efforts; and is satisfied with incremental growth. It does not seek to invest in new factories and capital assets, gain market share, or invade new geographical territories. Organizations choose this strategy when the industry in which it operates or the state of the economy is in turmoil or when the industry faces slow or no growth prospects. They also choose this strategy when they go through a period of rapid expansion and need to consolidate their operations before going for another bout of expansion.

An organization's strategists might choose stability when:

- The industry or the economy is in turmoil or the environment is volatile. Uncertain conditions might convince strategists to be conservative until they became more certain.
- Environmental turbulence is minimal and the firm does not foresee any major threat to itself and the industry concerned as a whole.
- The organization just finished a period of rapid growth and needs to consolidate its gains before pursuing more growth.
- The firm's growth ambitions are very modest and it is content with incremental growth.
- The industry is in a mature stage with few or no growth prospects and the firm is currently in a comfortable position in the industry.

3.8.2 Expansion Strategy

Firms choose expansion strategy when their perceptions of resource availability and past financial performance both are high. The most common growth strategies are diversification at the corporate level and concentration at the business level. Reliance Industry, a vertically integrated company covering the complete textile value chain has been repositioning itself to be a diversified conglomerate by entering into a range

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of business such as power generation and distribution, insurance, telecommunication, and information and communication technology services. Diversification is defined as the entry of a firm into new lines of activity, through internal or external modes. The primary reason, a firm pursues increased diversification are value creation through economies of scale and scope, or market dominance. In some cases, firms choose diversification because of government policy, performance problems and uncertainty about future cash flow. In one sense, diversification is a risk management tool, in that its successful use reduces a firm's vulnerability to the consequences of competing in a single market or industry. Risk plays a very vital role in selecting a strategy and hence, continuous evaluation of risk is linked with a firm's ability to achieve strategic advantage *(Simons, 1999)*. Internal development can take the form of investments in new products, services, customer segments, or geographic markets including international expansion. Diversification is accomplished through external modes through acquisitions and joint ventures. Concentration can be achieved through vertical or horizontal growth. Vertical growth occurs when a firm takes over a function previously provided by a supplier or a distributor. Horizontal growth occurs when the firm expands products into new geographic areas or increases the range of products and services in the current markets.

The reasons given for adopting expansion are as follow:

- In volatile industries, a stability strategy can mean short-run success, long-run death. So expansion may be necessary for survival, if environments are volatile.
- Many executives equate expansion with effectiveness.
- Some believe that society benefits from expansion.
- Managerial motivation. It is true that there is less risk with stability. But there are also fewer financial and other rewards. There are many managers who wish to be remembered, who wish to leave a monument to themselves in the workplace. Who remembers the executive who stood at the helm for 5 years steady as it goes? Strategies may result from the power needs of many executives; the recognition needs are strong in these executives too. Thus the needs or drives encourage some executives to gamble and choose a strategy of expansion. Their company also become better known, may attract better management, and often leads to higher pay.
- Believe in the experience curve. There is some evidence that as a firm grows in size and experience, it performs better at what it's doing and reduces costs and improves productivity.
- Belief that growth will yield monopoly power.
- External pressure from stockholders or securities analysts.

3.8.3 Retrenchment Strategy

Many firms experience deteriorating financial performance resulting from market erosion and wrong decisions by management. Managers respond by selecting corporate

strategies that redirect their attempt to turnaround the company by improving their firm's competitive position or divest or wind up the business if a turnaround is not possible. Turnaround strategy is a form of retrenchment strategy, which focuses on operational improvement when the state of decline is not severe. Other possible corporate-level strategic responses to decline include growth and stability.

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The following are the key reasons for pursuing the retrenchment strategies:

- The firm is not doing well or perceives itself as doing poorly.
- The firm has not met its objectives by following one of the others generic strategies, and there is pressure from stockholders, customers, or others to improve performance.
- The environment is seen to be so threatening that internal strengths are insufficient to meet the problems.
- Better opportunities in the environment are perceived elsewhere, where a firm's strengths can be utilized.

3.8.4 Combination Strategy

The three generic strategies can be used in combination; they can be sequenced, for instance growth followed by stability, or pursued simultaneously in different parts of the business unit. Combination Strategy is designed to mix growth, retrenchment, and stability strategies and apply them across a corporation's business units. A firm adopting the combination strategy may apply the combination either simultaneously (across the different businesses) or sequentially. For instance, Tata Iron & Steel Company (TISCO) had first consolidated its position in the core steel business, then divested some of its non-core businesses. Reliance Industries, while consolidating its position in the existing businesses such as textile and petrochemicals, aggressively entered new areas such as Information Technology.

3.9 CORPORATE RESTRUCTURING

When referred to at the global or country level, that is, the macro level, economic restructuring means the reform process used to make structural adjustments in the economy of a country, such as, reduction or phasing-out of subsides, dismantling of price controls, and other such actions. At the micro level, restructuring has three connotations: corporate or business-level restructuring, financial restructuring and organizational restructuring. First, corporate or business-level restructuring means changes in the composition of firms set of businesses in order to create a more profitable enterprises. Within the firm, restructuring takes place in two forms. Financial restructuring deals with the changes in the equity pattern, equity holdings and crossholding pattern, debt-servicing schedule, and the like. Organizational restructuring deals with the changes in the structure of the organization, reducing hierarchies, reducing the number of employees or downsizing, re-designating the positions and altering reporting relationships.

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Here, we are only concerned with corporate-or business-level restructuring, that is, with the business portfolio changes that firms undertake in order to either deal with the problems they face or to create a more profitable enterprise. Business portfolio changes could lead to the firm acquiring some businesses.

The following are the different ways of introducing corporate restructuring:

3.9.1 Strategic Alliance and Collaborative Partnership

A strategic alliance is an agreement between firms to do business together in ways that go beyond normal company-to-company dealings, but fall short of a merger or a full partnership *(Wheelen and Hungar, 2000)*. Strategic alliances can be as simple as two companies sharing their technological and/or marketing resources. In contrast, they can be highly complex, involving several companies, located in different countries. These firms may in turn be linked with other organizations in separate alliances. The result is a maze of intertwined companies, which may be competing with each other in several product areas while collaborating in some. These alliances also range from informal "handshake" agreements to formal agreements with lengthy contracts in which the parties may also exchange equity, or contribute capital to form a joint venture corporation. Most of the discussion in the literature on strategic alliances revolves around alliances between two companies, but there is an increasing trend towards multi-company alliances. For instance, a six-company strategic alliance was formed between Apple, Sony, Motorola, Philips, AT&T and Matsushita to form General Magic Corporation to develop Telescript communications software.

3.9.2 Mergers and Acquisition

Mergers and acquisitions and corporate restructuring—or M&A for short—are a big part of the corporate finance. One plus one makes three: this equation is the special alchemy of a merger or acquisition. The key principle behind buying a company is to create shareholder value over and above that of the sum of the two companies. Two companies together are more valuable than two separate companies—at least, that's the reasoning behind M&A. This idea is particularly attractive to companies when times are tough. Strong companies will act to buy other companies to create a more competitive, cost-efficient company. The companies will come together hoping to gain a greater market share or achieve greater efficiency. Because of these potential benefits, target companies will often agree to be purchased when they know they cannot survive alone.

There are a number of reasons that mergers and acquisitions take place. These issues generally relate to business concerns such as competition, efficiency, marketing, product, resource and tax issues. They can also occur because of some very personal reasons such as retirement and family concerns. Some people are of the opinion that mergers and acquisitions also occur because of corporate greed to acquire everything.

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Various reasons for M&A include:

1. **Reduced Competition:** One major reason for companies to combine is to eliminate competition. Acquiring a competitor is an excellent way to improve a firm's position in the marketplace. It reduces competition and allows the acquiring firm to use the target firm's resources and expertise. However, combining for this purpose is as such not legal and under the *Antitrust Acts* it is considered a predatory practice. Therefore, whenever a merger is proposed, firms make an effort to explain that the merger is not anti-competitive and is being done solely to better serve the consumer. Even if the merger is not for the stated purpose of eliminating competition, regulatory agencies may conclude that a merger is anti-competitive. However, there are a number of acceptable reasons for combining the firms.
2. **Cost Efficiency:** Due to technology and market conditions, firms may benefit from economies of scale. The general assumption is that larger firms are more cost effective than are smaller firms. It is, however, not always cost effective to grow.
3. Inspite of the stated reason that merging will improve cost efficiency, larger companies are not necessarily more efficient than smaller companies. Further, some large firms exhibit diseconomies of scale, which means that the average cost per unit increases, as total assets grow too large. Some industry analysts even suggest that the top management go in for mergers to increase its own prestige. Certainly, managing a big company is more prestigious than managing a small company.
4. **Avoid Being a Takeover Target:** This is the another reason that companies merge. If a firm has a large quantity of liquid assets, it becomes an attractive takeover target because the acquiring firm can use the liquid assets to expand the business, pay-off shareholders, etc. If the targeted firm invests existing funds in a takeover, it has the effect of discouraging other firms from targeting it because it is now larger in size, and will, therefore, require a larger tender offer. Thus, the company has found a use for its excess liquid assets, and made itself more difficult to acquire. Often firms will state that acquiring a company is the best investment the company can find for its excess cash. This is the reason given for many conglomerate mergers.
5. **Improve Earnings and Reduce Sales Variability:** Improving earnings and sales stability can reduce corporate risk. If a firm has earnings or sales instability, merging with another company may reduce or eliminate this provided the latter company is more stable. If companies are approximately the same size and have approximately the same revenues, then by merging, they can eliminate the seasonal instability. This is, however, not a very inefficient way of eliminating instability in strict economic terms.

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6. **Market and Product Line Issues:** Often mergers occur simply because one firm is in a market that the other company wants to enter. All of the target firm's experience and resources are readily available for immediate use. This is a very common reason for acquisitions. Whatever may be the explanation offered for acquisition, the dominant reason for a merger is always quick market entry or expansion. Product line issues also exert powerful influence in merger decisions. A firm may wish to expand, balance, fill out or diversify its product lines. For example, acquisition of Modern Foods by Hindustan Lever Limited is primarily related product line.
7. **Acquire Resources:** Firms wish to purchase the resources of other firms or to combine the resources of the two firms. There may be tangible resources such as plant and equipment, or there may be intangible resources such as trade secrets, patents, copyrights, leases, management and technical skills of target company's employees, etc. This only proves that the reasons for mergers and acquisitions are quite similar to the reasons for buying any asset: to purchase an asset for its utility.
8. **Synergy:** Synergy popularly stated, as "two plus two equals five," is similar to the concept of economies of scope. Economies of scope would occur, if two companies combine and the combined company was more cost efficient at both activities because each requires the same resources and competencies. Although synergy is often cited as the reason for conglomerate mergers, cost efficiencies due to synergy are difficult to document.
9. **Cashing Out:** For a family-owned business, when the owners wish to retire, or otherwise leave the business and the next generation is uninterested in the business, the owners may decide to sell to another firm. For purposes of retirement or cashing out, if the deal is structured correctly, there can be significant tax savings.

3.9.3 Joint Ventures Strategies

In a joint venture, two or more organizations form a separate, independent organization for strategic purposes. Such partnerships are usually focused on accomplishing a specific market objective. They may last from a few months to a few years and often involve a cross-border relationship. One firm may purchase a percentage of the stock in the other partner, but not a controlling share. The joint ventures between various Indian and foreign companies such Hindustan Motors and General Motors, Hero Cycles with Honda Motor Company, Wipro and General Electric, etc are the examples of such strategic partnering.

Joint ventures are quite common in India. In the highly capital-intensive industries such as automobiles, chemicals, pharmaceuticals and petroleum industries, joint ventures are becoming more widespread as firms seek to overcome the high fixed costs required for managing even more scale-intensive production processes. In all

these industries, production is highly committed in nature, which means that it is difficult for firms on their own to build sufficient scale and profitability in products that often face highly volatile pricing and deep cyclical downturns when markets collapse. For instance, Telco (now rechristened as Tata Motors) is the leader in the commercial vehicle segment with a 54 per cent market share in Light Commercial Vehicle (LCV) and 63 per cent market share in Medium & Heavy Commercial Vehicle (M&HCV) (2003 figures). It garnered a market share of 21 per cent in the utility vehicle (UV) segment and a 9 per cent market share in the passenger car industry in a short span of three years. The company is open to alliances, but is not willing to enter into any alliance without a strong underlying reason. The view of the top management is that a strategic alliance should bring complementary strengths together. Around 85 per cent of the Indian market consists of small cars and this trend is expected to continue for the next 10-15 years.

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Tata Indica, which is one of the best and technologically contemporary value propositions available, caters to this segment. Hence the company is primarily interested in an alliance with a global major who can offer a better proposition in the small car market than the Indica and who already has a presence in India. Second, the company is looking for a strategic alliance to enhance their product portfolio in the more premium or niche segments and to open the overseas markets for them.

3.10 OUTSOURCING STRATEGIES

Outsourcing (1990s) is a variation of the traditional make-or-buy concept where portions of value-chain activities are commissioned to external suppliers on the basis of economic analysis, so that the firm's own focus remains on its core competence. A related concept is of the modular organization where the value-stream, down to its components, is broken down and a decision taken to focus on core activities and to outsource rest of the activities to outside agencies who can perform them more efficiently. Here too, the vendors and suppliers are a part of the firm's processing system and the benefits from optimization and operational effectiveness are shared by all.

Processes, as practices for operational implementation, are significant for all types of strategies. Since process improvement is the basic purpose of all new processes, there are several benefits of lower cost, better quality, lesser wastage, lower production time, and higher productivity. So processes are relevant for operational implementation of all types of business strategies. For instance, strategic advantage results from the ability of a company to manage its value-chain in such a way that enables it to offer better customer value, thereby making it more competitive. Also, deconstructing value-chains by using supply-chain management and outsourcing makes it possible to offer higher differentiation, as the firm's own facilities are not tied down to mass manufacturing.

3.11 CONCEPT OF SYNERGY AND ITS RELEVANCE

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It is the inherent nature of organizations that strengths and weaknesses, like resources and behaviour, do not exist individually but combine in a variety of ways. For instance, two strong points in a particular functional area add up to something more than double the strength. Likewise, two weaknesses acting in tandem result in more than double the damage. In effect, what we have is a situation where attributes do not add mathematically but combine to produce an enhanced or a reduced impact. Such a phenomenon is known as the synergistic effect. Synergy is the idea that the whole is greater or lesser than the sum of its parts. It is also expressed as the two-plus-two-is equal- to-five-or-three effect.

Within an organization, synergistic effects occur in a number of ways. For example, within a functional area, say of marketing, the synergistic effect may occur when the product, pricing, distribution, and promotion aspects support each other, resulting in a high level of marketing synergy. At a higher level, the marketing and production areas may support each other leading to operating synergy. On the other hand, marketing inefficiency reduces production efficiency, the overall impact being negative, in which case dysergy (or negative synergy) occurs. In this manner, synergistic effects are an important determinant of the quality and type of the internal environment existing within an organization and may lead to the development of competencies.

Check Your Progress

State the Following Statements are True or False

4. The cost leadership strategy concentrates on a narrow segment and within that segment attempts to achieve either a cost advantage or differentiation.
5. A differentiation strategy calls for the development of a product or service that offers unique attributes that are valued by customers and that customers perceive to be better than or different from the products of the competition.
6. Core competency is a unique skill or technology that creates distinct customer value.
7. The functional strategy sets the overall direction for the organization to follow.

Case Study: Nestle's Growth Strategy

Nestle is one of the oldest of all multinational businesses. The company was founded in Switzerland in 1866 by Heinrich Nestle, who established Nestle to distribute "milk food," a type of infant food he had invented that was made from powdered milk, baked food, and sugar. From its very early days, the company looked to other countries for growth opportunities, establishing its first foreign offices in London in 1868. In 1905, the company merged with the Anglo-Swiss Condensed Milk, thereby broadening the company's product line to include both condensed milk and infant formulas. Forced by Switzerland's small size to look outside' its borders for growth opportunities, Nestle established condensed milk and infant food processing plants in the United States and Britain in the late 19th century and in Australia, South America, Africa, and Asia in the first three decades of the 20th century. In 1929, Nestle moved into the chocolate business when it acquired a Swiss chocolate maker. This was followed in 1938 by the development of Nestle's most revolutionary product, Nescafe, the world's first soluble coffee drink. After World War II, Nestle continued to expand into other areas of the food business, primarily through a series of acquisitions that included Maggi (1947), Cross & Blackwell (1960), Findus (1962), Libby's (1970), Stouffer's (1973), Carnation (1985), Rowntree (1988), and Perrier (1992). By. the late 1990s, Nestle had 500 factories in 76 countries and sold its products in a

staggering 193 nations-almost every country in the world. In 1998, the company generated sales of close to SWF 72 billion ($51 billion), only 1 per cent of which occurred in its home country. Similarly, only 3 per cent of its 210,000 employees were located in Switzerland. Nestle was the world's biggest maker of infant formula, powdered milk, chocolates, instant coffee, soups, and mineral waters. It was number two in ice cream, breakfast cereals, and pet food. Roughly 38 per cent of its food sales were made in Europe, 32 per cent in the Americas, and 20 per cent in Africa and Asia.

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Management Structure

Nestlé is a decentralized organization. Responsibility for operating decisions is pushed down to local units, which typically enjoy a high degree of autonomy with regard to decisions involving pricing, distribution, marketing, human resources, and so on. At the same time, the company is organized into seven worldwide strategic business units (SBUs) that have responsibility for high-level strategic decisions and business development. For example, a strategic business unit focuses on coffee and beverages. Another one focuses on confectionery and ice cream. These SBUs engage in overall strategy development, including acquisitions and market entry strategy. In recent years, two-thirds of Nestlé's growth has come from acquisitions, so this is a critical function. Running in parallel to this structure is a regional organization that divides the world into five major geographical zones, such as Europe, North America and Asia. The regional organizations assist in the overall strategy development process and are responsible for developing regional strategies (an example would be Nestlé's strategy in the Middle East, which was discussed earlier). Neither the SBU nor regional managers, however, get involved in local operating or strategic decisions on anything other than an exceptional basis.

Although Nestlé makes intensive use of local managers to knit its diverse worldwide operations together, the company relies on its "expatriate army." This consists of about 700 managers who spend the bulk of their careers on foreign assignments, moving from one country to the next. Selected primarily on the basis of their ability, drive and willingness to live a quasi-nomadic lifestyle, these

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individuals often work in half-a-dozen nations during their careers. Nestlé also uses management development programs as a strategic tool for creating an *esprit de corps* among managers. At Rive-Reine, the company's international training center in Switzerland, the company brings together, managers from around the world, at different stages in their careers, for specially targetted development programs of two to three weeks' duration. The objective of these programs is to give the managers a better understanding of Nestlé's culture and strategy, and to give them access to the company's top management.

The research and development operation has a special place within Nestlé, which is not surprising for a company that was established to commercialize innovative foodstuffs. The R&D function comprises 18 different groups that operate in 11 countries throughout the world. Nestlé spends approximately 1 per cent of its annual sales revenue on R&D and has 3,100 employees dedicated to the function. Around 70 per cent of the R&D budget is spent on development initiatives. These initiatives focus on developing products and processes that fulfill market needs, as identified by the SBUs, in concert with regional and local managers. For example, Nestlé instant noodle products were originally developed by the R&D group in response to the perceived needs of local operating companies through the Asian region. The company also has longer-term development projects that focus on developing new technological platforms, such as non-animal protein sources or agricultural biotechnology products.

A Growth Strategy for the 21st Century

Despite its undisputed success, Nestlé realized by the early 1990s, that it faced significant challenges in maintaining its growth rate. The large Western European and North American markets were mature. In several countries, population growth had stagnated and in some, there had been a small decline in food consumption. The retail environment in many Western nations had become increasingly challenging and the balance of power was shifting away from the large-scale manufacturers of branded foods and beverages, and toward nationwide supermarket and discount chains. Increasingly, the retailers found themselves in the unfamiliar position of playing off against each other – manufacturers of branded foods, thus bargaining down prices. Particularly in Europe, this trend was enhanced by the successful introduction of private-label brands by several of Europe's leading supermarket chains. The results included increased price competition in several key segments of the food and beverage market, such as cereals, coffee and soft drinks.

At Nestlé, one response has been to look toward emerging markets in Eastern Europe, Asia and Latin America for growth possibilities. The logic is simple and obvious – a combination of economic and population growth, when coupled with the widespread adoption of market-oriented economic policies by the governments of many developing nations, makes for attractive business opportunities. Many of

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these countries are still relatively poor, but their economies are growing rapidly. For example, if current economic growth forecasts occur, by 2010, there will be 700 million people in China and India that have income levels approaching those of Spain in the mid-1990s. As income levels rise, it is increasingly likely that consumers in these nations will start to substitute branded food products for basic foodstuffs, creating a large market opportunity for companies such as Nestlé.

In general, the company's strategy had been to enter emerging markets early – before competitors – and build a substantial position by selling basic food items that appeal to the local population base, such as infant formula, condensed milk, noodles and tofu. By narrowing its initial market focus to just a handful of strategic brands, Nestlé claims that it can simplify life, reduce risk, and concentrate its marketing resources and managerial efforts on a limited number of key niches. The goal is to build a commanding market position in each of these niches. By pursuing such a strategy, Nestlé has taken as much as 85 per cent of the market for instant coffee in Mexico, 66 per cent of the market for powdered milk in the Philippines, and 70 per cent of the markets for soups in Chile. As income levels rise, the company progressively moves out from these niches, introducing more upscale items, such as mineral water, chocolate, cookies, and prepared foodstuffs.

Although the company is known worldwide for several key brands, such as Nescafe, it uses local brands in many markets. The company owns 8,500 brands, but only 750 of them are registered in more than one country, and only 80 are registered in more than 10 countries. While the company will use the same "global brands" in multiple developed markets, in the developing world it focuses on trying to optimize ingredients and processing technology to local conditions and then using a brand name that resonates locally. Customization rather than globalization is the key to the company's strategy in emerging markets.

Executing the Strategy

Successful execution of the strategy for developing markets requires a degree of flexibility, an ability to adapt in often unforeseen ways to local conditions, and a long-term perspective that puts building a sustainable business before short-term profitability. In Nigeria, for example, a crumbling road system, aging trucks, and the danger of violence forced the company to re-think its traditional distribution methods. Instead of operating a central warehouse, as is its preference in most nations, the country. For safety reasons, trucks carrying Nestlé goods are allowed to travel only during the day and frequently under-armed guard. Marketing also poses challenges in Nigeria. With little opportunity for typical Western-style advertising on television of billboards, the company hired local singers to go to towns and villages offering a mix of entertainment and product demonstrations.

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China provides another interesting example of local adaptation and long-term focus. After 13 years of talks, Nestlé was formally invited into China in 1987, by the Government of Heilongjiang province. Nestlé opened a plant to produce powdered milk and infant formula there in 1990, but quickly realized that the local rail and road infrastructure was inadequate and inhibited the collection of milk and delivery of finished products. Rather than make do with the local infrastructure, Nestlé embarked on an ambitious plan to establish its own distribution network, known as milk roads, between 27 villages in the region and factory collection points, called chilling centres. Farmers brought their milk – often on bicycles or carts – to the centres where it was weighed and analysed. Unlike the government, Nestlé paid the farmers promptly. Suddenly the farmers had an incentive to produce milk and many bought a second cow, increasing the cow population in the district by 3,000 to 9,000 in 18 months. Area managers then organized a delivery system that used dedicated vans to deliver the milk to Nestlé's factory.

Although at first glance this might seem to be a very costly solution, Nestlé calculated that the long-term benefits would be substantial. Nestlé's strategy is similar to that undertaken by many European and American companies during the first waves of industrialization in those countries. Companies often had to invest in infrastructure that we now take for granted to get production off the ground. Once the infrastructure was in place, in China, Nestlé's production took off. In 1990, 316 tons of powdered milk and infant formula were produced. By 1994, output exceeded 10,000 tons and the company decided to triple capacity. Based on this experience, Nestlé decided to build another two powdered milk factories in China and was aiming to generate sales of $700 million by 2000.

Nestlé is pursuing a similar long-term bet in the Middle East, an area in which most multinational food companies have little presence. Collectively, the Middle East accounts for only about 2 per cent of Nestlé's worldwide sales and the individual markets are very small. However, Nestlé's long-term strategy is based on the assumption that regional conflicts will subside and intra-regional trade will expand as trade barriers between countries in the region come down. Once that happens, Nestlé's factories in the Middle East should be able to sell throughout the region, thereby realizing the scale economies. In anticipation of this development, Nestlé has established a network of factories in five countries, in the hope that each will, someday, supply the entire region with different products. The company, currently makes ice-cream in Dubai, soups and cereals in Saudi Arabia, yogurt and bouillon in Egypt, chocolate in Turkey, and ketchup and instant noodles in Syria. For the present, Nestlé can survive in these markets by using local materials and focusing on local demand. The Syrian factory, for example, relies on products that use tomatoes, a major local agricultural product. Syria also produces wheat, which is the main ingredient in instant noodles. Even if trade barriers don't come down soon, Nestlé has indicated it will remain committed to the region. By using local

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inputs and focussing on local consumer needs, it has earned a good rate of return in the region, even though the individual markets are small.

Despite its successes in places such as China and parts of the Middle East, not all of Nestlé's moves have worked out so well. Like several other Western companies, Nestlé has had its problems in Japan, where a failure to adapt its coffee brand to local conditions meant the loss of a significant market opportunity to another Western company, Coca-Cola. For years, Nestlé's instant coffee brand was the dominant coffee product in Japan. In the 1960s, cold canned coffee (which can be purchased from soda vending machines) started to gain a following in Japan. Nestlé dismissed the product as just a coffee-flavoured drink rather than the real thing and declined to enter the market. Nestlé's local partner at the time, Kirin Beer, was so incensed at Nestlé's refusal to enter the canned coffee market that it broke-off its relationship with the company. In contrast, Coca-Cola entered the market with Georgia, a product developed specifically for this segment of the Japanese market. By leveraging its existing distribution channel, Coca-Cola captured a 40 per cent share of the $4 billion a year, market for canned coffee in Japan. Nestlé, which failed to enter the market until the 1980s, has only a 4 per cent share.

While Nestlé has built businesses from the ground up, in many emerging markets, such as Nigeria and China, in others it will purchase local companies, if suitable candidates can be found. The company pursued such a strategy in Poland, which it entered in 1994, by purchasing Goplana, the country's second largest chocolate manufacturer. With the collapse of communism and the opening of the Polish market, income levels in Poland have started to rise and so has chocolate consumption. Once a scarce item, the market grew by 8 per cent a year, throughout the 1990s. To take advantage of this opportunity, Nestlé has pursued a strategy of evolution, rather than revolution. It has kept the top management of the company staffed with locals – as it does in most of its operations around the world – and carefully adjusted Goplana's product line to better match local opportunities. At the same time, it has pumped money into Goplana's marketing, which has enabled the unit to gain share from several other chocolate makers in the country. Still, competition in the market is intense. Eight companies, including several foreign-owned enterprises, such as the market leader, Wedel, which is owned by PepsiCo, are vying for market share, and this has depressed prices and profit margins, despite the healthy volume growth.

Discussions

1. Does it make sense for Nestle to focus its growth efforts on emerging markets? Why?
2. What is the company's strategy with regard to business development in emerging markets? Does this strategy make sense? From an organizational perspective, what is required for this strategy to work effectively?

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3. Through your own research on NESTLE, identify appropriate performance indicators. Once you have gathered relevant data on these, undertake a performance analysis of the company over the last five years. What does the analysis tell you about the success or otherwise of the strategy adopted by the company?
4. How would you describe Nestle's strategic posture at the corporate level; is it pursuing a global strategy, a multi-domestic strategy an international strategy or a transnational strategy?
5. Does this overall strategic posture make sense given the markets and countries that Nestle participates in? Why?
6. Is Nestle's management structure and philosophy aligned with its overall strategic posture?

Source: *Scribd.com*

3.12 SUMMARY

- Strategies will exist at a number of levels in an organization. Broadly the strategies can be classified as functional strategies, business-level strategies and corporate-level strategies.
- A functional strategy is the short-term game plan for a key functional area within a company. Such strategies clarify grand strategy by providing more specific details about how key functional areas are to be managed in the near future.
- Functional strategies must be developed in the key areas of marketing, finance, production/ operations, R&D, and personnel.
- Business-Level Strategies are now relatively commonplace. They are frequently found in annual reports and financial statements, or hanging in board rooms and reception areas or even summarized in the form of a motto and printed on company documents and invoices.
- Michael E Porter is credited with extension pioneering work in the area of business strategies or, what he calls, competitive strategies.
- A tactic is a sub-strategy. It is a specific operating plan detailing how a strategy is to be implemented in terms of when and where it is to be put into action. By their nature, tactics are narrower in their scope and shorter in their time horizon than are strategies.
- Corporate strategy is essentially a blueprint for the growth of the firm. The corporate strategy sets the overall direction for the organization to follow.
- Organizational restructuring deals with changes in the structure of the organization, reducing hierarchies, reducing the number of employees or downsizing, re-designating positions and altering reporting relationships.

- In a joint venture, two or more organizations form a separate, independent organization for strategic purposes. Such partnerships are usually focused on accomplishing a specific market objective.
- Synergy is the idea that the whole is greater or lesser than the sum of its parts. It is also expressed as the two-plus-two-is equal- to-five-or-three effect.

3.13 KEY TERMS

- **Corporate Strategies:** Corporate strategy is essentially a blueprint for the growth of the firm.
- **Competitive Strategies:** Strategies that determine how the firm will compete in a specific business or industry.
- **Combination Strategy:** Combination strategy may include combination of two alternatives i.e., market penetration and market development or combination of all the three alternatives.
- **Diversification:** The firm grows by diversifying into new businesses by developing new products for the new markets.
- **Expansion Strategies:** Growth or expansion strategy is the most important strategic option, which firms pursue to gain significant growth as opposed to incremental growth envisaged in stable strategy.
- **Functional Strategies:** Also called operational strategies, these are the short-term, goal-directed decisions and actions of the organization's various functional departments.
- **Joint Ventures:** Two or more organizations form a separate, independent organization for strategic purposes.
- **Strategic Alliances:** Two or more organizations share resources, capabilities, or distinctive competencies to pursue some business purpose.

3.14 ANSWERS TO 'CHECK YOUR PROGRESS'

1. A functional strategy is the short-term game plan for a key functional area within a company. Such strategies clarify grand strategy by providing more specific details about how key functional areas are to be managed in the near future.
2. Production/operations management (POM) is the core function in the business firm. POM is the process of converting input (raw material, supplies, people, and machines) into value-enhanced output.
3. Effective marketing strategies guide marketing managers in determining who will sell what, where, when, to whom, in what quantity, and how.
4. False

5. True
6. True
7. False

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3.15 QUESTIONS AND EXERCISES

Short Answer Questions

1. What are the different types of strategy?
2. Define functional strategies.
3. What are the key uses of core competencies?
4. Explain:
   (a) the meaning of strategic alliance.
   (b) corporate restructuring.
5. Define synergy.

Long Answer Questions

1. Explain the key strategies prepared at different levels of a business organization?
2. Discuss the key areas of preparing the functional-level strategies.
3. Write a note on Porter's framework of competitive strategies.
4. What are the different ways of introducing corporate restructuring?
5. Discuss the concept of synergy and its relevance.
6. Examine the reasons for mergers and acquisition.

UNIT 4 DESIGN OF STRATEGY

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Structure

4.0 INTRODUCTION

Designing an appropriate strategy is the most important function of strategic managers. Strategic managers recognize that short-run profit maximization is rarely the best approach to achieving sustained corporate growth and profitability. An often-repeated adage states that if impoverished people are given food they will enjoy eating it but will continue to be impoverished. However, if they are given seeds and tools and shown how to grow crops, they will be able to permanently improve their condition. A parallel situation confronts strategic decisionmakers:

1. Should they eat the seeds by planning for large dividend payments, by selling-off inventories, and by cutting-back on research and development to improve the near-term profit picture, or by laying-off workers during the periods of slack demand?
2. Or should they sow the seeds by reinvesting profits in growth opportunities, by committing existing resources to employee training in the hope of improving

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performance and reducing turnover, or by increasing advertising expenditures to further penetrate a market?

For most strategic managers the solution is clear-enjoy a small amount of profit now to maintain vitality, but sow the majority to increase the likelihood of a long-term supply. This is the most frequently used rationale in selecting objectives.

4.1 UNIT OBJECTIVES

After going through this unit, you will be able to:

- Analyse the project life cycle and portfolio analysis
- Discuss the key strategic models like BCG matrix, GE-Mckinsey matrix, Hofer's product market evolution Shell directional policy matrix, etc.
- Describe the blue ocean strategy.

4.2 PROJECT LIFE CYCLE ANALYSIS

A logical sequence of activities that are used to achieve the project's goals or objectives is known as *The Project Life Cycle*. Most projects go through similar stages on the path from origin to completion. We define these stages, shown in Figure 4.1, as the project's life cycle.

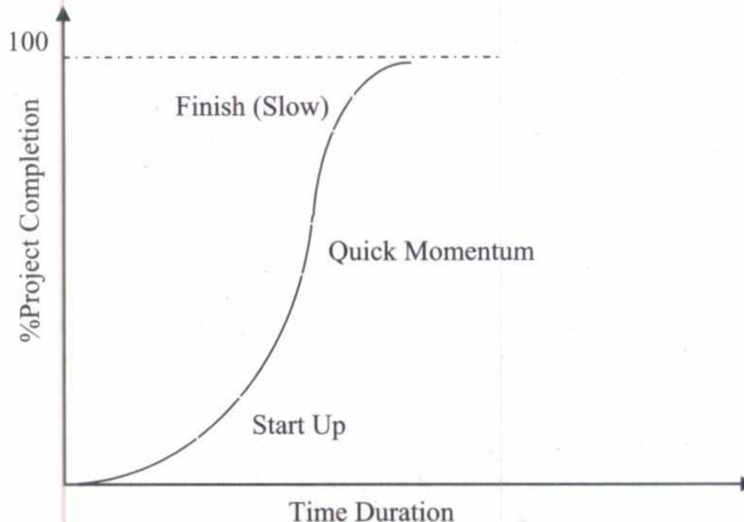


Fig. 4.1: Project life cycle

The project is born (its start up phase) and a manager is selected, the project team and initial resources are assembled, and the work program is organized. Then work gets under way and momentum quickly builds. Progress is made. This process continues until the end is insight. But completing the final tasks seems to take an inordinate amount of time, partly because there are often a number of parts that must come

together and partly because team members "drag their feet" for various reasons and avoid the final steps.

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The pattern of slow progress toward the project goal is common. If we watch the construction of a home or building, this phenomenon can be observed. For most of the part, it is a result of the changing levels of resources used during the successive stages of the life cycle. Minimal effort is required at the beginning, when the project concept is being developed and subjected to the project selection processes.

If this hurdle is passed, activity increases as planning is completed and the real work of the project gets under way. This rises to a peak and then begins to taper-off as the project nears completion, finally ceasing when evaluation is complete and the project is terminated. While this rise and fall of effort always occurs, there is no particular pattern that seems to typify all projects, nor any reason for the slowdown at the end of the project to resemble the buildup at its beginning.

The ever-present goals of meeting performance, time, and cost are the major considerations throughout the project's life cycle. It is generally thought that the performance takes precedence early in the project's life cycle. This is the time when planners focus on finding the specific methods required meeting the project's performance goals.

At the same time as the technology of the project is defined, the project schedule is designed and the project costs are estimated. Just as it was thought that performance takes precedence over schedule and cost early in the life cycle, cost was thought to be of prime importance during the periods of high activity, and then the schedule became paramount during the final stages, when the client demanded delivery.

4.3 PORTFOLIO ANALYSIS

Portfolio analysis is a systematic way to analyze the products and services that make up an association's business portfolio. All associations (except the simplest and the smallest) are involved in more than one business. Some of these include publishing, meetings and conventions, education and training, government representation, research, standards setting, public relations, etc. Each of these is one of the association's strategic business units (SBUs).

Each business consists of a portfolio of products and services. For example, an association's publishing business might include a professional journal, a lay magazine, specialized newsletters geared to different member segments, CDs, a website, social networking sites, etc.

Portfolio analysis helps you to decide which of these products and services should be emphasized and which should be phased out, based on objective criteria. Portfolio analysis consists of subjecting each of the association's products and services through a progression of finer screens. During a time of cutbacks and scarce resources, it is essential to screen out programs and services that are not essential to most members.

Those that appeal to a more limited segment can be funded by those desiring the product or service rather than by dues.

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4.3.1 Advantages and Disadvantages of Portfolio Analysis

Portfolio analysis offers the following advantages:

- It encourages management to evaluate each of the organization's businesses individually and to set objectives and allocate resources for each.
- It stimulates the use of externally oriented data to supplement management's intuitive judgment.
- It raises the issue of cash flow availability for use in expansion and growth.

Portfolio analysis does, however, has some limitations.

- It is not easy to define product/market segments.
- It provides an illusion of scientific rigor when some subjective judgments are involved.

Portfolio analysis is mostly relevant for existing, larger businesses with multiple products. For such businesses, matrix displays are helpful in making strategic decisions about the allocation of limited cash resources among a portfolio of products. Some products require further cash investments, some generate cash and others may have to be divested. In practice, the experience curve effect and the economies of scale effect work together. When a new product is launched volumes are small, but they increase rapidly. If a company achieves higher production volumes more quickly than its rivals, it will experience lower unit costs. As a result, it could offer lower prices, thus increasing market share even further (see figure 4.1). Therefore market share is of overriding importance when assessing the strategic imperatives of product life cycle, portfolio and matrix analysis.

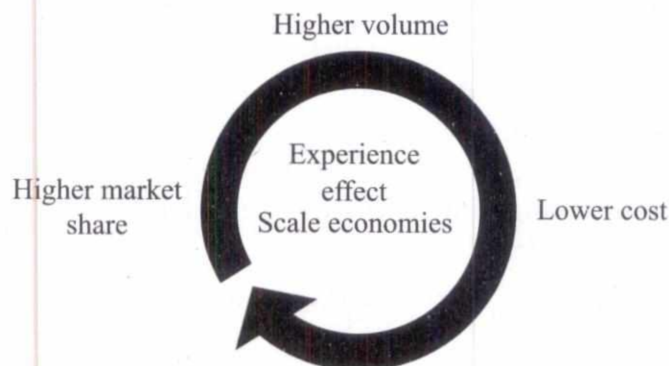


Fig. 4.1: The virtuous circle of volume and cost

An important aspect of portfolio analysis is market share. The importance of market share in a mass market derives from the ability to pursue a cost leadership strategy and thus achieve higher overall returns on investments because of high-volume sales. Market share is therefore a key determinant of business position.

4.4 BCG MATRIX

One of the most widely used portfolio approaches to corporate strategic analysis has been the growth/share matrix pioneered by the Boston Consulting Group. According to this matrix, business could be classified as high or low according to their industry growth rate and relative market share.

Relative Market Share ratio = SBU Sales this year leading/competitors sales this year.
Market Growth Rate = Industry sales this year – Industry Sales last year.

The BCG matrix facilitates strategic analysis of likely "generators" and "optimum users" of corporate resources. Market growth rate is the projected rate of sales growth for the market to be served by a particular business. Market growth rate provides an indicator of the relative attractiveness of the market served by each of the businesses in the corporation's portfolio. The relative competitive position is usually expressed as the ratio of a business market share divided by the market share of the largest competitor in the market. Each business unit can also be represented as a circle in the matrix. The size of the circle represents the proportion of corporate revenue generated by that business unit. This provides visualisation of the current importance of each business as a revenue generator.

Market growth rate is frequently separated into "high" and "low" areas by an arbitrary 10 per cent growth line. The relative competitive position is usually divided as a relative market share between 1.0 and 1.5 so that a high position signifies market leadership. Once plotted, business units will be in one of the four cells with differing implications for their role in an overall corporate-level strategy.

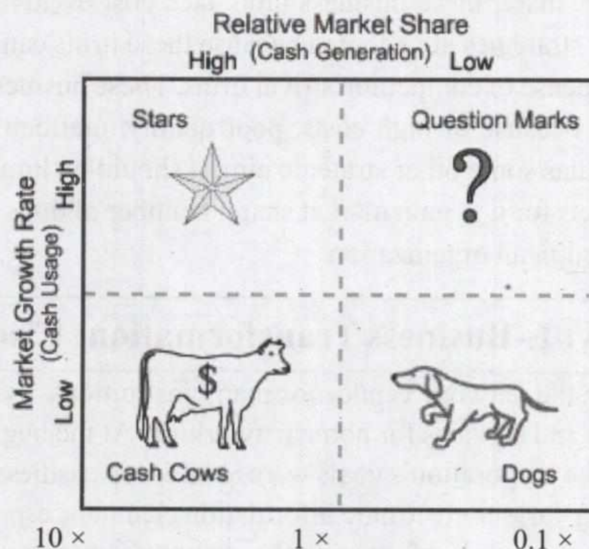


Fig. 4.2: Bcg matrix

- **Stars:** Stars represent the business units having large market share in a fast-growing industry. They may generate cash but because of fast-growing markets, stars require huge investments to maintain their lead. Net cash flow is usually

modest. SBUs located in this cell are attractive as they are located in a robust industry and these business units are highly competitive in the industry. If successful, a star will become a cash cow when the industry matures.

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- **Cash Cows:** Cash Cows represent the business units having a large market share in a mature, slow-growing industry. Cash cows require little investment and generate cash that can be utilized for investment in other business units. These SBU's are the corporation's key source of cash, and are specifically the core business. They are the base of an organization. These businesses usually follow stability strategies. When cash cows loose their appeal and move towards deterioration, then a retrenchment policy may be pursued.
- **Question Marks:** Question marks represent the business the units having low relative market share and located in a high-growth industry. They require huge amount of cash to maintain or gain market share. They require attention to determine, if the venture can be viable. Question marks are generally new goods and services which have a good commercial prospective. There is no specific strategy which can be adopted. If the firm thinks, it has dominant market share, then it can adopt expansion strategy, else retrenchment strategy can be adopted. Most businesses start as question marks as the company tries to enter a high growth market in which there is already a marketshare. If ignored, then question marks may become dogs, while if huge investment is made, then they have the potential of becoming stars.
- **Dogs:** Dogs represent businesses having weak market shares in low-growth markets. They neither generate cash nor require huge amount of cash. Due to low market share, these business units face cost disadvantages. Generally retrenchment strategies are adopted because these firms can gain market share only at the expense of competitor's/rival firms. These business firms have weak market share because of high costs, poor quality, ineffective marketing, etc. Unless a dog has some other strategic aim, it should be liquidated, if there are fewer prospects for it to gain market share. Number of dogs should be avoided and minimized in an organization.

Case Study: E-Business Transformation: Cisco Systems

Cisco Systems is the network vendor for many institutions – yet they now also provide products and services for home networking. At the beginning history of Cisco Systems, the corporation's goals were to build-up easiness in accessing the information using various electronic information channels, especially computer, inside the Stanford campus. Along with the growth of the firm, the management hired many talented employees. They formalized their business plan covering four strategic goals (provide complete solution for businesses, make acquisitions a structured process, define the industry-wide networking protocols, and form the

right strategic alliances). Based on that strategy, they want to become "e-business" leaders in their industry.



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Cisco uses several distribution channels to deliver its products and services such as personal selling, third-party distributors, resellers, service providers, and system integrators. Since Cisco plays in the networking products, they try to provide customers with a great possible flexibility of products or service development when designing customer's networks. Therefore, customers can save time and money when they want to change their existing networks.

Cisco differentiates its customers into four major segments i.e. enterprises, service providers, small/medium-sized businesses, and home consumers. Cisco has been rendering networking solutions for its customers. Moreover, it also uses internet and internet-related technologies to handle business activities. Cisco builds several internet initiatives for its e-business functionality such as Cisco Connection Online (CCO), Cisco Employee Connection (CEC), and Manufacturing Connection Online (MCO). As an addition to those initiatives, the result is an increase in automated functions within several Cisco's operation departments. These e-business initiatives have brought the company to benefit a considerable flexibility in managing the dynamic of the organization.

Main Problem/Issue

1. Can other corporations benefit from investing in e-business functionality to the same extent that Cisco has?
2. What can other corporations learn from Cisco's approach to guiding the e-business transformation?

Analysis

In Corporate-level strategy, Cisco is totally committed to one industry which is computer networking industry. Cisco's key core competence is computer networking know-how. It has used this competency to produce simple bridges and routers. Since then, the company has used this competency to provide variety of products (such as optical switches, software and even services) that enable the sharing of information across disparate network. For instance, Cisco manages complete information technology solutions for business. Cisco is also adopting innovative techniques and technology to service customer and streamline its own business processes with efficiently and effectively. Because of that, Cisco

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has achieved average growth rate over 40 per cent a year, acquired more than 70 companies to further develop and expand its market presence. Another thing is Cisco saves more than $800 million a year from re-investing in e-business.

Based on the Boston Consulting Group (BCG)'s the portfolio matrix model, Cisco fall in Winners category with high level industry attractiveness and string business strength. IT industry now on is attractive industry. Especially with the boost widespread of internet make the demand of networking hardware and software increasing rapidly. Cisco also has strong business strength. It looks on Cisco achievement that mention above.

According to Porter's Five-Forces Model, in Cisco condition, the forces are weak. Cisco is the main player that witch one initiate the standard of hardware and software. It causes higher entry barrier, limited number of competitor and substituted product. Because there are limited number of players, the power of supplier and customer are weak too.

The purposes of e-business initiative by Cisco are maximizing customer satisfaction and minimizing the cost. In early stages, the information was just only about company and product. Later on, when it was integrated into sophisticated and costly ERP system, customers were able to access more information like manual, FAQ and up-to-date information. It brings more customer satisfaction to achieve customer loyalty. To minimize the cost, integrating system between Cisco and its supplier is a perfect move. It allows Cisco to implement Just-In-Time process that saves cost and time.

Employees of Cisco will do everything possible to supports the customers. With delegated authority for IT expenditures to individual business unit, would support customers and directly increase sale. Cisco has a long history with maximizing customer satisfaction. It's begun with extended telephone support hours, using information technology to provide much information to customer and provided customer-training programs.

Cisco realizes that with its large market share, have large burden to support a large number of customers. With electronic, dissemination of knowledge could ease that burden. It is a significant move from Cisco to educated customers and builds customer loyalty.

Case Conclusion

Related with the problem statement, other company can gain benefit from investing e-business functionality same extent with Cisco. The infrastructure and program is in the market right now. The company just chooses the right ones are match with the requirement. However, the implementation and the execution may not be the same. Every company has its own strategy and the infrastructure and the program must be designed based on that strategy.

Flexibility was as critical as functionality to Cisco e-business system. There is no system adequate with the situation over time. There must be some revision,

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adaptation and change. The flexibility also originates from decisionmaking process. The business units have independent position to relate with cost and strategy. Because the business units faces their own unique environment and the business unit itself know to deal with it.

Human resource was critical factor to the company. Other company can learn how Cisco treats the employee. With the help from technology, Cisco can develop system that ease the employee works with each other and made simpler the business process.

Credit: MCS Course, International Program, MM GMU

Source: *Scribd.com*

4.5 GE-MCKINSEY MATRIX

General Electric, assisted by McKinsey, developed a strategic planning grid which attempted to correct some of the limitations of the BCG matrix approach. First, the GE grid uses multiple factors to assess industry attractiveness and business strength, rather than the single measure (market share and market growth, respectively) employed by the BCG matrix. Second, GE expanded the matrix from four cells to nine, replacing the high/low axis with a high/medium/low to draw finer distinctions between business portfolio positions. To determine under which axis a business unit falls the company's business unit is rated on multiple sets of strategic factors within each axis of the grid.

The GE-Mckinsey Matrix is illustrated in the figure 4.4:

		Business Unit Strength		
		High	Medium	Low
Industry Attractiveness	High			
	Medium			
	Low			

Fig. 4.3: GE–McKinsey matrix

Industry attractiveness and business unit strength are calculated by first identifying criteria for each, determining the value of each parameter in the criteria, and multiplying that value by a weighting factor. The result is a quantitative measure of industry attractiveness and the business unit's relative performance in that industry.

4.5.1 Industry Attractiveness

The vertical axis of the GE-McKinsey matrix is industry attractiveness, which is determined by the factors such as the following:

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- Market growth rate
- Market size
- Demand variability
- Industry profitability
- Industry rivalry
- Global opportunities
- Macro-environmental factors (PEST).

Each factor is assigned a weighting that is appropriate for the industry. The industry attractiveness then is calculated as follows:

Industry attractiveness	=	factor value1 × factor weighting1
	+	factor value2 × factor weighting2
	+	factor value N × factor weighting N

4.5.2 Business Unit Strength

The horizontal axis of the GE-McKinsey matrix is the strength of the business unit. Some factors that can be used to determine business unit strength include:

- Market share
- Growth in market share
- Brand equity
- Distribution channel access
- Production capacity
- Profit margins relative to competitors.

The business unit strength index can be calculated by multiplying the estimated value of each factor by the factor's weighting, as done for industry attractiveness.

4.6 HOFER'S PRODUCT MARKET EVOLUTION

Hofer's product market evolution matrix adds an additional dimension to the display of market evolution and business position and uses a finer grid. The competitive position is plotted on the horizontal axis and the stage of product or market evolution on the vertical axis. The competitive position, which is similar to the business position in the directional policy matrix, can be calculated in the same way as for that matrix. The market evolution axis is similar to the product life cycle, where development equates to the introduction stage, growth to the accelerating growth stage and shake-out to the decelerating growth stage. The products or SBUs are shown as circles and, unlike in other matrixes, the area of the circle represents total product turnover. Within the circle, the share of a firm's product is shown as a slice of the circle.

The Hofer matrix includes more information, but is also more difficult to construct and exceeds the capabilities of Excel. However, there are specialist software tools (see below) to facilitate the creation of matrixes of such type.

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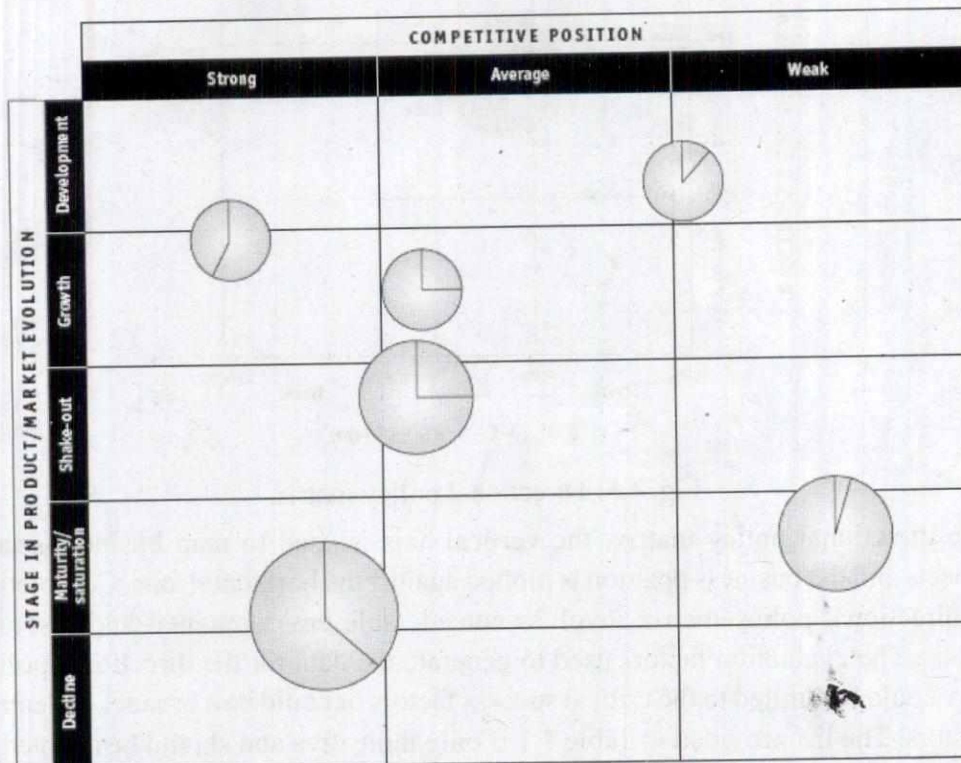


Fig. 4.4: Hofer's matrix

4.7 SHELL DIRECTIONAL POLICY MATRIX

A limitation of the growth-share matrix is that it relies only on two factors: the market growth rate and the relative market share. Market growth rate is only one factor that affects business prospects. Similarly, relative market share is only one aspect of the business position. The directional policy matrix seeks to overcome this limitation by including many more factors (see figure 4.5). In doing so, the exercise becomes less numerical and involves judgment.

Joseph Guiltinan and Gordon Paul developed the directional policy matrix while working at Shell Corporate Planning during the late 1970s. It was based on the growth-share matrix, originally developed by the Boston Consulting Group, but the work done at Shell enhanced the perspective specifically with a view to managing a portfolio of products competing for limited funds within Shell. The method of developing a directional policy matrix shown here is based on Patrick McNamee's Tools and Techniques for Strategic Management.

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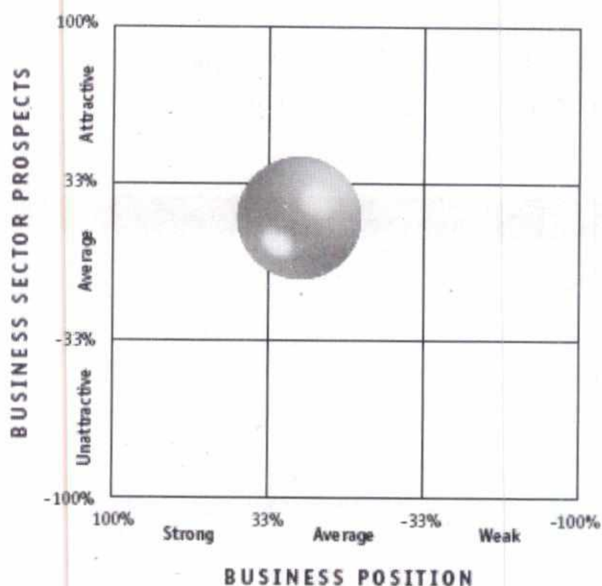


Fig. 4.5: Directional policy matrix

In the directional policy matrix, the vertical axis is used to map business-sector prospects and the business position is plotted against the horizontal axis. Completion of a directional policy matrix involves considerable environmental and resource analysis. The evaluation factors used to generate the data for the directional policy matrix could be limited to the critical success factors or could be a broader collection of factors. The list provided in Table 4.1 is only indicative and should be adapted to meet the industry's and your firm's particular circumstances.

Table 4.1: Factors for evaluation in a directional policy matrix

Business sector prospects	Business position
Market factors	***Marketing factors***
Market size	Market share
Market growth	Relative market share
Price elasticity	Sales growth
Product life cycle stage	Relative product quality
Cyclicality	Brand Image
Bargaining power of suppliers	
Bargaining power of buyers	Product diversity
Competitive environment	Relative maturity
Degree of concentration	Positioning
Threat from new entrants	Distribution strength

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Exits	***Technology Factors***
Consolidation	R&D strength
Vertical integration	Product development pipeline
Threat from substitutes	Patents and rights
Technology factors	Manufacturing technology
Scope for innovation	Degree of flexible manufacturing
Speed of change	Scalability
Product diversity	***Production***
Complexity	Cost relative to competitors
Differentiation	Scope for cost reduction
Flexible manufacturing	Capacity utilisation
Capacity utilisation	Inventory
Patents and copyrights	Degree of vertical integration
Financial and economic factors	***Organizational factors***
Margins	Relative skill level
Fixed versus marginal costs	Stakeholder interest and backing
Trends in input costs	Attitude to risk
Capital intensity	Strategic interests
Contribution	Union reaction
Share prices	***Financial factors***
Cost of capital	Margin
Synergies	Contribution to profits
Political factors	Cash flow
Social trends	Cost of capital
Barriers to exit	Access to funding
Subsidies	Capital structure
Regulation and legislation	Capital intensity
Environmental impact	Fixed versus marginal costs
Threat of litigation	Potential impairment charges
Peer groups	Taxation

Using the directional policy matrix to develop strategic direction

The nine squares in the directional policy matrix and the labels assigned to them (see

figure 4.6) are similar to those in the growth-share matrix, but they provide a finer degree of analysis. The labels provide an indication as to what strategic directions may be the most appropriate for a particular product or SBU.

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BUSINESS SECTOR PROSPECTS	Strong	Average	Weak
Attractive	Leader	Try harder	Double or quit
Average	Leader/growth	Growth/ custodial	Phased withdrawal
Unattractive	Cash generator	Phased withdrawal	Divest

BUSINESS POSITION

Fig. 4.6: Strategic directions

1. **Leader:** This is the position that is most likely to generate the highest return on investment in the longer term. It is similar to the star in the growth-share matrix. A product in this category is well positioned with regard to the most important industry attractiveness factors. Rapid market growth is probably one of the reasons for its attractiveness, so the product will require investment in capacity and marketing, for example brand building and distribution channel development. If the position as leader is maintained, the product will become a cash generator.
2. **Try Harder:** A product in this category is not the market leader but it has a good chance of catching up. The market is still growing fast and the positions can change. To move the product to the leader box, additional cash above that to keep up with market growth is required.
3. **Double or Quit:** Here the chances of catching up with the market leader are slimmer. The product is in an attractive market but its position is weak. Substantial investment is required to improve the business position and the success is not guaranteed. The easier option may be to divest, by selling out to a competitor whose product is in the try harder box, for example. It is highly likely that the net present value of a product to a competitor is higher than it is to your business. In other words, you would maximise your return on investment by selling out.

4. **Leader/growth:** These products are leaders in a market of medium attractiveness. To ensure that they do not lose their business attractiveness, some investments are required. If the position is maintained, they are likely to become cash generators.
5. **Growth/custodial:** A product in this category has good business-sector prospects and there are no particular business advantages. Sales are likely to be too large to reposition the product as a niche player. Given that the sector prospects are only average, a holding strategy may be appropriate. This is likely to release some cash, but returns will be below average.
6. **Phased Withdrawal:** Products that are either in an unattractive market and have only an average business position or in an average market but with a weak business position fall into this category. In both cases returns are below average. Although these products are probably cash generating, they can easily turn into the growth-share matrix dog and become a drain on resources. The best strategy may be to withdraw the product and reallocate resources.
7. **Cash Generator:** Products in this category are similar to the cash cow products. They are in a relatively unattractive market but with an excellent competitive position. Because business prospects are not good, making further investments is not recommended. The strong competitive position means that cash flow will be highly positive. However, in the directional policy matrix the business prospect does not depend on growth rates alone. Other factors may be responsible for the unattractive business prospects, such as a reduction in import tariffs which may allow the market to be flooded with cheap imports.
8. **Divest:** This is the least enviable position. The product's business-sector prospects are bleak, its business position is weak, and it is likely to lose money. This is a true dog identified in the growth-share matrix. The best strategy is to divest the product.

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4.8 ANSOFF'S MATRIX

To portray alternative corporate growth strategies, Igor Ansoff presented a matrix that focused on the firm's present and potential products and markets (customers). By considering ways to grow via existing products and new products, and in existing markets and new markets, there are four possible product-market combinations. Ansoff's matrix is shown below:

	Existing Products	**New Products**
Existing Markets	Market Penetration	Product Development
New Markets	Market Development	Diversification

Fig. 4.7: Ansoff matrix

Check Your Progress

1. What is meaning of portfolio analysis?
2. What is a market growth rate?
3. What are the cash cows?
4. What are the key symbols used in BCG matrix?

Ansoff's matrix provides four different growth strategies:

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1. **Market Penetration:** The firm seeks to achieve growth with existing products in their current market segments, aiming to increase its market share.
2. **Market Development**: The firm seeks growth by targeting its existing products to new market segments.
3. **Product Development**: The firms develops new products targeted to its existing market segments.
4. **Diversification:** the firm grows by diversifying into new businesses by developing new products for new markets.

4.8.1 Selecting a Product-Market Growth Strategy

1. The market penetration strategy is the least risky since it leverages many of the firm's existing resources and capabilities. In a growing market, simply maintaining market share will result in growth, and there may exist opportunities to increase market share if competitors reach capacity limits. However, market penetration has limits, and once the market approaches saturation another strategy must be pursued, if the firm is continued to grow.
2. Market development options include the pursuit of additional market segments or geographical regions. The development of new markets for the product may be a good strategy if the firm's core competencies are related more to the specific product than to its experience with a specific market segment. Because the firm is expanding into a new market, a market development strategy typically has more risk than a market penetration strategy.
3. A product development strategy may be appropriate if the firm's strengths are related to its specific customers rather than to the specific product itself. In this situation, it can leverage its strengths by developing a new product targeted to its existing customers. Similar to the case of new market development, new product development carries more risk than simply attempting to increase market share.
4. Diversification is the most risky of the four growth strategies since it requires both product and market development and may be outside the core competencies of the firm. In fact, this quadrant of the matrix has been referred to by some one as the "suicide cell". However, diversification may be a reasonable choice, if the high risk is compensated by the chance of a higher rate of return. Other advantages of diversification include the potential to gain a foothold in an attractive industry and the reduction of overall business portfolio risk.

4.9 BOWMAN'S STRATEGY CLOCK PRICE

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Looking at Porter's strategies in a different way, in 1996, Cliff Bowman and David Faulkner developed Bowman's Strategy Clock. This model of corporate strategy extends Porter's three strategic positions to eight, and explains the cost and perceived value combinations many firms use, as well as identifying the likelihood of success for each strategy.

Figure 4.8 below, represents Bowman's eight different strategies that are identified by varying levels of price and value.

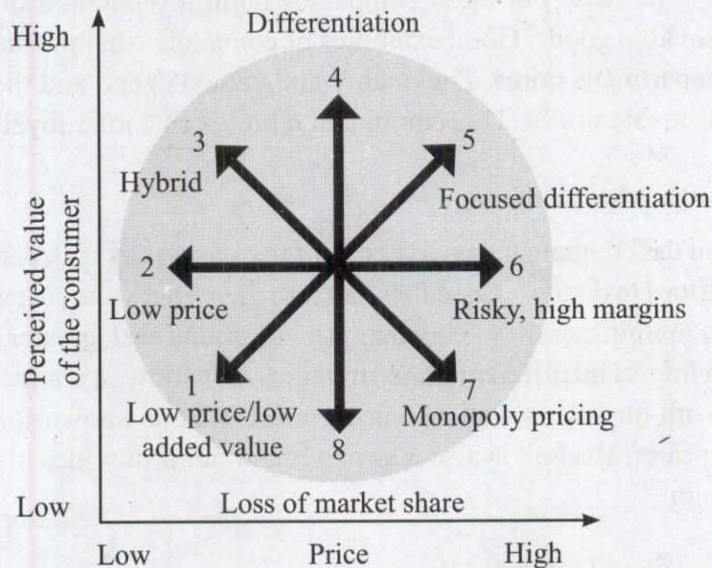


Fig. 4.8: Bowman's strategy clock

Position 1: Low Price/Low Value

Firms do not usually choose to compete in this category. This is the "bargain basement" bin and not a lot of companies want to be in this position. Rather it's a position they find themselves forced to compete in because their product lacks differentiated value. The only way to "make it" here is through cost effectively selling volume, and by continually attracting new customers. We won't be winning any customer loyalty contests, but we may be able to sustain ourself as long as we stay one step ahead of the consumer (we're not going to mention any names here.) Products are inferior but the prices are attractive enough to convince consumers to try them once.

Position 2: Low Price

Companies competing in this category are the low-cost leaders. These are the companies that drive prices down to bare minimums, and they balance very low margins with very high volume. If low-cost leaders have large enough volume or

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strong strategic reasons for their position, they can sustain this approach and become a powerful force in the market. If they don't, they can trigger price wars that only benefits consumers, as the prices are unsustainable over anything but the shortest of terms. Wal-mart is a key example of a low-price competitor that persuades suppliers to enter the low-price arena with the promise of extremely high volumes.

Position 3: Hybrid (moderate price/moderate differentiation)

Hybrids are the interesting companies. They offer products at a low cost, but offer products with a higher perceived value than those of other low-cost competitors. Volume is an issue here, but these companies build a reputation of offering fair prices for reasonable goods. Good examples of companies that pursue this strategy are discount department stores. The quality and value is good and the consumer is assured of reasonable prices. This combination builds customer loyalty.

Position 4: Differentiation

Companies that differentiate themselves offer their customers high perceived value. To be able to afford to do this, they either increase their prices and sustain themselves through higher margins, or they keep their prices low and seek greater market share. Branding is an important differentiation strategies as it allows a company to become synonymous with quality as well as a price point. Nike is known for high quality and premium prices; Reebok is also a strong brand but it provides high value with a lower premium.

Position 5: Focused Differentiation

These are your designer products: High perceived value and high prices. Consumers will buy in this category based on perceived value alone. The product does not necessarily have to have any more real value, but the perception of value is enough to charge very large premiums. Think Gucci, Armani, Rolls Royce, Clothes either cover you or they don't, and a car either gets you around the block or it doesn't. If you believe pulling up in your Rolls Royce Silver Shadow is worth 25 times more than in an economy Ford then you will pay the premium. Highly targeted markets and high margins are the ways these companies survive.

Position 6: Increased Price/Standard Product

Sometimes companies play a gamble and simply increase their prices without any increase to the value side of the equation. When the price increase is accepted, they enjoy higher profitability. When it isn't, their market share plummets, until they make an adjustment to their price or value. This strategy may work in the short term, but it is not a long-term proposition as an unjustified price premium will soon be discovered in a competitive market.

Position 7: High Price/Low Value

This is a classic monopoly pricing in a market where only one company offers the goods or service. As a monopolist, you don't have to be concerned about adding value because, if customers need what you offer, they will pay the price you set, period. Fortunately for consumers in a market economy, monopolies do not last very long, if they ever get started, and the companies are forced to compete on a more level playing field.

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Position 8: Low Value/Standard Price

Any company that pursues this type of strategy will lose market share. If we have a low-value product, the only way we will sell it is on low price. We can't sell day-old bread at fresh prices. Mark it down a few cents, and suddenly we have a viable product. That is the nature of consumer behaviour, and we will not get around it, no matter how hard we try.

Positions 6, 7, and 8 are not viable competitive strategies in truly competitive marketplaces. Whenever price is greater than the perceived value we have an uphill battle in our hands. There will always be competitors offering better quality products at lower our prices so we have to have our value and price aligned correctly.

4.10 VALUE MATRIX

The value matrix provides a better framework to describe organizations, their core knowledge, value drivers, resources' orientation, customer focus and general strategy; by introducing two value dimensions "Hard and Soft" to Treacy and Wiersema's original value propositions (1996). (Table 4.2)

The differentiation between Hard and Soft Value underpins the applicability of technology, research and development, marketing, sales and service management, in order to serve current and future needs of a complex market (Martinez 1999). Hard Value is focused on continuous creation of technology on products and processes, innovations, new designs, improvements, etc. In contrast, Soft Value is more focused on the organization's marketing image and management.

Soft Value stresses into psychological perceptions "intangible things" most of the cases are intangibles, e.g. management, brand image, people's feelings, simplicity to deal with, customer attention, etc., whereas, Hard Value focuses on "tangible things" that the organizations can easily measure, e.g. innovations, product customarisation, price saves, etc. For these reasons, hard dimension is called *the actors of technology* breakthroughs and the Soft is called *the creators of image*. Until this moment, Hard and Soft value are not validated, there are still propositions. Table 4.2 explains the difference between Hard and Soft value though different parameters.

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Table 4.2: Hard vs Soft Values

Parameters	Hard Values *Actors of technology breakthrough*	Soft Values *Creators of image perception*
Human Resources	It requires a technological backgrounds. It under pins in design, operations and technological improvements.	Soft Value demands creative people in marketing, sales and management.
Research and Development	It demands high levels of investigation; research and development, continuous generations of technology, innovations, and new designs.	It demands research and development on image creation, new concepts to sell products/services.
Core competence	Hard Value focuses their resources and competencies toward one direction. "They are the specialists in one area or even sometimes in one thing".	Their core competence resides in a mix of talents and capabilities.
Technology	They have the capacity to create new technology in products and processes.	They do not create new technology, they only make use of the existent technology.
Knowledge generation	"Fresh" "developers of technological knowledge with high quality and applicability."	Their technological knowledge generation is limited to people management and tacit knowledge, including knowledge learned from customers and market.

Some authors support these propositions in different ways. For instance, Gary Wilson (Willigan 1990), vice-president and CFO of Disney, states that "value creation comes as a result of an excellent marketing creativity". Julia Collins (1989) in her article "Image and Advertisement" emphasises on advertisement management to create value. On the other hand, Kim and Mauborgne (1999) stated "value innovators create new and superior value through design". Wilson and Collins, one way or another, support the soft value creation and Kim and Mauborgne supports the hard value creation.

Elements of the Value Matrix

The Value Matrix is structured taking the value propositions from Treacy & Wiersema (1996) along with the addition of the two value dimensions, "Hard & Soft". The result

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of this combination is a two by three matrix as illustrates Figure 4.9. Consequently, this generates six value propositions: Innovators, Brand Managers, Price Minimisers, Simplifiers, Technological Integrators and Socialisors.

The elements of the Value Matrix are analysed from two different perspectives. Table 4.3 illustrates both customer perspective as "customers get" and company perspective as "company need to do".

VALUE MATRIX			
		New Value Dimension	
		Hard	Soft
Original Value Propositions	Product Leadership	Innovators	Brand Managers
	Operational Excellence	Price Minimisers	Simplifiers
	Customer Instancy	Technological Intergrators	Socialisors

Fig. 4.9: Value Matrix

Prahalad and Hamel (1990), Porter (1985) and Larreche (2000) agree that every company has to focus their resources on one objective. Tracy and Wiersema (1996), as well as Miler and Roth (1994), support the same theory, although, in different words. All these authors sustain that companies have to focus on one value proposition that it alone can deliver to a selected market. The corporate objective of each value proposition gives the alignment between customer's expectations and the key operative elements that the company has to build, in order to cope with the specific market demands.

Table 4.3: Comparison of Value Proposition

Value Proposition	Customers get	Company need to do	
		Strategic Objectives	*Operative Objectives*
Innovators	New innovative designs, products never seen before.	Provide breakthrough through generations of continuous new designs, new features within technological basis	Long-term vision, robust R&D and product development, capacity to innovate within short product lifecycles.

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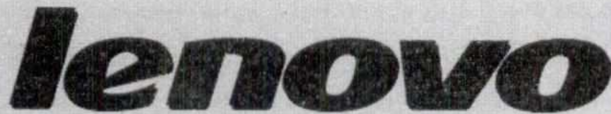
Brand Managers	Status from the product, they get life-style, a feeling of superiority.	Expand the market reinforcing the solid brand image of the product and the company.	Superb brand recognition. Focused market sector. Superior control over the product styles, quality and promotion.
Price Minimisers	Ordinary, reliable products and services at lowest price possible. They get security on the product.	Production growth reaching high quality levels in the most cost-effective way and waste free.	Strong order fulfilment sustained by efficient and effective production processes within tight quality processes controls.
Simplifiers	Convenience and availability of the products. Hazard-free experience.	Building streamlined processes to make life simple and uncomplicated for customers in a novel and profitable way.	Strong availability. Superb order fulfilment-distribution by conventional and unconventional resources (networking, IT, etc.).
Technological Integrator	Tailored products and services. They buy total solutions.	Tailor specific and continuous solutions for carefully selected customers on the basis of permanent relationships.	Strong relationship with customers. Knowledge of customers' businesses, products and operations. Capacity to configure any specific need. Able to adopt the customer's strategy.
Socialisors	Flexible services and inter-personal relationship because they trust in the company.	Building confidence and trustiness on the customers.	Sensitive fulfilment of customers' needs supported by careful deliver, reliability, and honesty. Excellent personal service.

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Case Study: Project management improves Lenovo's strategy

I. Background

In recent years, the personal computer (PC) industry has been developing by leaps and bounds. Global sales of PCs totaled 230 million units in 2006, representing a 9 per cent increase over the previous year. Lenovo has a product line that includes everything from servers and storage devices to printers, printer supplies, projectors, digital products, computing accessories, computing services and mobile handsets, all in addition to its primary PC business, which made up 96 per cent of the company's turnover as of the second quarter of 2007.



Since its acquisition of IBM's Personal Computing Division in May 2005, Lenovo has been accelerating its business expansion into overseas markets. The company transferred its corporate headquarters from Beijing, China to Raleigh, North Carolina, USA. Today, the group has branch offices in 66 countries around the globe. It conducts business in 166 countries and employs over 25,000 people worldwide. Lenovo is organized into four geographical units: Greater China, America, Asia-Pacific, Europe, and the Middle East and Africa (EMEA). Within each unit, there are functional departments that include production, transportation, supply chain management, marketing and sales. Sales outside of Greater China compromised 59 per cent of the company's total turnover in the second quarter of 2007.

II. Challenges

Before 2004, multinational PC makers like Dell and HP were experiencing difficulties localizing their business in the Chinese market and thus did not pose a serious competitive threat to Lenovo. However, their operations began to have a major impact on Lenovo market share in 2004, particularly among key accounts—mandating better execution and core competitiveness in order to increase market share and improve business performance.

III. Solutions

In order to address these challenges, Lenovo proposed substantial changes to its business model and strategy in 2004, employing a project-focused approach to develop its corporate strategy. Specific steps taken were:

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Implementing project management as the tool for executing corporate strategy

1. After confirming the company's overall corporate strategy, Lenovo set about organizing priority tasks that required multi-department cooperation into projects, referred to as strategic projects. Strategic projects differ from R&D projects in that time and cost cannot be used as yardsticks for success. Such projects may be concerned about expanding into new markets, solving underlying problems, enhancing organizational efficiency, integrating strategic resources or improving employee satisfaction capabilities. In the past, some strategic planning had not been followed up on sufficiently but the application of strategic project management solved this problem; strategic projects began to actually be executed and generated results.
2. Lenovo also established a Project Management Office (PMO) to coordinate strategic projects. Beginning in 2004 and early 2005, Lenovo put in place the processes and the organizational structure for its PMO. It also formalized the relationships between strategic leaders and the PMO and budgeted resources for the office. Subsequently, all of Lenovo's other departmental regulations needed to conform to PMO regulations, with detailed regulations being outlined by specific business departments. However, Lenovo's PMO did not interfere with projects administratively; rather it offered training and established standardized procedures. Lenovo employees see the PMO as a kind of resource rather than an administrative facility. Designating the PMO as an administrative facility is one of several things that have doomed such offices in the past, but Lenovo's office has thrived, winning the company's excellent team award. The company believes that certain conditions must exist in order to successfully utilize project management: First, a company must face a challenge (i.e. an external factor that demands it to do so); second, the office must be prioritized by the company leadership; third, the office must be led by a professional team in order to guarantee that company-specific systems are developed; and finally, it must conform with the company's organizational culture and be appreciated. Otherwise it's hard to execute.
3. Lenovo also earmarked money for strategic implementation. Previously, completed strategic plans were not financially supported. But with the strategic shift, the leadership set aside additional money to execute projects outside of the original budget and to provide bonuses for those involved—paving the way for the successful execution of strategic plans.

Valuing project management professionals

1. Lenovo sent its top talent in project management to take the PMP® certification exam and to apply project management standards. PMP® certification is

developed and managed by Project Management Institute (PMI) which is the largest professional project management institute in the world. The PMP certification is the most authoritative and influential of its kind and is the only certification genuinely recognized and accepted globally within the project management discipline. PMP® certification conforms to *A Guide to the Project Management Body of Knowledge* (*PMBOK® Guide*), the standards issued by PMI. The *PMBOK® Guide* is also recognized and accepted internationally by premier authorities in standards. After Lenovo's acquisition deal with IBM's PC business, Lenovo project managers needed a shared platform to communicate with and manage teams in different countries. As the de- facto global standard for project management, the project management standards of PMI helped Lenovo standardize its processes. Starting from its functional departments (e.g. R&D, supply chain management, etc.) Lenovo selected a group of key professionals to receive training in project management and sit for the PMP® certification. The returning professionals catalyzed project management in their respective functional departments and trained other team members.

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2. A hierarchy of project management positions was introduced within the company, in line with the position structure set up by the company's human resources department. Lenovo Corporate Research & Development introduced this position structure between 2000 and 2001. Different levels for engineers included assistant engineer, deputy engineer-in-charge, engineer-in-charge, managing engineer, etc. Professionals were appraised by experts annually on two fronts: First, based on their knowledge base, namely their background and relevant understanding; second, based on their performance, for example their ingenuity in R&D. In 2006, Lenovo kicked-off a global reshuffling of its positions. As an example, the company's sales division is broken up into sequential levels such as assistant salesperson, sales manager and consultant. Positions are associated with salaries, but company's regulations limit the percentage of employees at each level. For example, top-level positions can only occupy five per cent of a given team. Full-time project managers can advance within the company's project management hierarchy. There are over 100 full-time project managers in Lenovo, but nearly all staff of lenovo have participated in some projects. The hierarchy builds a professional ladder for project managers, serving as a channel for project management career development.

IV. Major Achievements

Lenovo's experimentation in project management significantly advanced the transformation in its corporate strategy and improved its business model. The company's project-oriented approach improved teamwork and leveled the playing

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field; team culture and corporate culture have been promoted; an innovative spirit has been instilled; and international integration has been improved. In terms of the market results, Lenovo's adaptation of project management has improved the company's core competitiveness with improved delivery and customer satisfaction. In turn, distinctive performance was delivered: In 2006, the company had a market share of seven per cent in the global PC market, led only by Dell and HP. Its total turnover was USD 14.6 billion, a rise of 10 per cent over the previous year.

Source: *http://www.mbaknol.com*

4.11 BLUE OCEAN STRATEGY

Blue Ocean Strategy (BOS) is the result of a decade-long study of 150 strategic moves spanning more than 30 industries over 100 years (1880-2000) by authors Kim, W. C. and Mauborgne, R. BOS is the simultaneous pursuit of differentiation and low-cost. The aim of BOS is not to out-perform the competition in the existing industry, but to create new market space or a blue ocean, thereby making the competition irrelevant. BOS offers a set of methodologies and tools to create new market space. While innovation has been seen as a random/experimental process where entrepreneurs and spin-offs are the primary drivers – as argued by Schumpeter and his followers – BOS offers systematic and reproducible methodologies and processes in pursuit of innovation by both new and existing firms. BOS frameworks and tools include: the strategy canvas, value curve, four actions framework, the six paths framework, buyer experience cycle, buyer utility map, and blue ocean idea index. These frameworks and tools are designed to be visual in order to not only effectively build the collective wisdom of the company but also to effectively execute through easy communication. BOS covers both–strategy formulation and strategy execution. The three key conceptual building blocks of BOS are: value innovation, tipping point leadership, and fair process.

Check Your Progress

Fill in the Blanks

5. The market .... strategy is the least risky since it leverages many of the firm's existing resources and capabilities.
6. .... is important with differentiation strategies as it allows a company to become synonymous with quality as well as a price point.
7. .... focuses on "tangible things" that the organizations can easily measure, e.g. innovations, product customization, price saves, etc.

4.12 SUMMARY

- A logical sequence of activities that are used to achieves the project's goals or objectives known as the Project Life Cycle.
- Portfolio analysis helps you decide which of these products and services should be emphasized and which should be phased out, based on objective criteria. Portfolio analysis consists of subjecting each of the association's products and services through a progression of finer screens.

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- The BCG matrix facilitates strategic analysis of likely "generators" and "optimum users" of corporate resources. Market growth rate is the projected rate of sales growth for the market to be served by a particular business.
- General Electric, assisted by McKinsey, developed a strategic planning grid which attempted to correct some of the limitations of the BCG matrix approach.
- Hofer's product market evolution matrix adds an additional dimension to the display of market evolution and business position and uses a finer grid.
- In the directional policy matrix, the vertical axis is used to map business-sector prospects and the business position is plotted against the horizontal axis.
- To portray alternative corporate growth strategies, Igor Ansoff presented a matrix that focused on the firm's present and potential products and markets (customers).
- The Value Matrix is structured taking the value propositions from Treacy & Wiersema (1996) along with the addition of the two value dimensions, "Hard & Soft".

4.13 ANSWERS TO 'CHECK YOUR PROGRESS'

1. Portfolio analysis is a systematic way to analyze the products and services that make up an association's business portfolio.
2. Market growth rate is the projected rate of sales growth for the market to be served by a particular business. Market growth rate provides an indicator of the relative attractiveness of the market served by each of the businesses in the corporation's portfolio.
3. Cash Cows represents business units having a large market share in a mature, slow growing industry.
4. The key symbols used in BCG matrix are:
   - Stars
   - Cash Cows
   - Question Mark
   - Dog
5. penetration
6. Branding
7. Hard Value

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4.14 KEY TERMS

- **Portfolio Analysis:** Portfolio analysis is a systematic way to analyze the products and services that make up an association's business portfolio.
- **Hard Value:** Hard Value is focused on continuous creation of technology on products and processes, innovations, new designs, improvements, etc.
- **Soft Value:** Soft Value is more focused on the organization's marketing image and management.

4.15 QUESTIONS AND EXERCISES

Short Answer Questions

1. What are the key stages of project life cycle?
2. Explain the key advantages and disadvantages of portfolio analysis?
3. Define the meaning of stars in:
   (a) BCG matrix.
   (b) Value matrix
4. What are the key factors used to determine business unit strength?
5. Explain the different types of growth strategies provided by Ansoff's matrix?

Long Answer Questions

1. Explain BCG matrix.
2. Describe the Hofer's Product Market Evolution and Shell Directional Policy Matrix.
3. Discuss the role and importance of Ansoff's matrix.
4. Write a note on Bowman's Strategy Clock Price.
5. Discuss the concept of Blue Ocean Strategy.
6. Explain project life cycle analysis.
7. Explain Porter's framework of competitive strategies.

UNIT 5 RETAIL STRATEGY

NOTES

Structure

5.0 INTRODUCTION

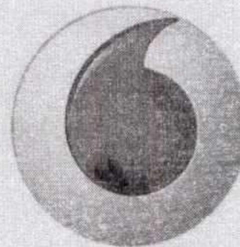
Retailing is all about the distribution of goods and services because retailers play a key role in the route that products take after originating from a manufacturer, grower or service-provider to reach the person who consumes. It is an important field to study because of its impact on the economy, its functions in distribution, and its relationship with firms selling goods and services to retailers for their resale or use. According to Statistics Canada, 2003 annual Canadian retail store sales (excluding motor vehicles and parts) were almost $250 billion, making Canada the tenth-largest retail market in the world. Retail strategy is about corporate survival and prosperity in a changing retail environment. The strategic direction of most large retail organizations is usually encapsulated in a mission statement. Corporate objectives expand this into a series of explicit time-related goals against which organizational progress and achievements can be measured. These form the basis for setting objectives and planning in other operational areas such as marketing and human resource management.

NOTES

Caselet on Vodafone's Re-Branding Strategies in India: Hutch to Vodafone

Launch of Vodafone Essar

Vodafone is the world's leading international mobile communications company. It presently has operations in 25 countries across 5 continents and 40 partner networks with over 200 million customers worldwide. Vodafone has partnered with the Essar Group as its principal joint venture partner for the Indian market. The Essar Group is a diversified business corporation with interests spanning the manufacturing and service sectors like Steel, Energy, Power, Communications, Shipping & Logistics and Construction. The Group has an asset base of over ₹ 400 billion and employs over 20,000 people.



Vodafone Essar was launched in India on 21st September 2007. Vodafone was welcomed in India with the "Hutch is now Vodafone" campaign. The popular and endearing brand Hutch was transitioned to Vodafone across India. This marked a significant chapter in the evolution of Vodafone as a dynamic and ever-growing brand. This brand unveiled nationally through a high profile campaign covering all important media.

Vodafone, the world's leading mobile telecommunication company, completed the acquisition of Hutchison Essar in May 2007 and the company was formally renamed Vodafone Essar in July 2007. The transition from Hutch to Vodafone was probably the largest brand change ever undertaken in this country and arguably as big as any in the world. It was even larger than Hutch's own previous brand transitions. The migration from Hutch to Vodafone was one of the fastest and most comprehensive brand transitions in the history of the Vodafone Group, with 400,000 multi-brand outlets, over 350 Vodafone stores, over 1,000 mini stores, over 35 mobile stores and over 3,000 touch-points rebranded in two months, with 60 per cent completed within 48 hours of the launch.

The Vodafone mission is to be the communications leader in an increasingly connected world – enriching customers' lives, helping individuals, businesses and communities be more connected by delivering their total communication needs.

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Vodafone's Marketing Strategies: Hutch to Vodafone

Vodafone's new advertising campaign in India carried on with the same popular pug that has become a brand ambassador for Hutch. 'Where ever you go, our network follows,' was the previous slogan with the pug following the child wherever he goes. Now, with Hutchison Essar becoming part of the Vodafone Group, the new campaign had started with Vodafone Essar earmarking ₹ 2.5 billion on the transition from Hutch to Vodafone. The main message of the brand transition exercise: The new Vodafone is the same old Hutch. In the advertisement, the pug sees a new home when it returns after an outing and feels the change is better. The new catch phrase will be 'Make the most of now.'

Vodafone had tied up with Star India to run a complete roadblock of its fresh campaign on the entire network by unveiling the 24-hour nationwide rebranding campaign. Vodafone used all of the commercial airtime across all 13 channels in five languages (Hindi, Tamil, Bengali, Marathi and English) from 9 pm on 20 September to 9 pm on 21 September. This exercise included TV commercials, transition bumpers and contest spots to promote the Vodafone Essar brand. Commercial spots had also been purchased on Sony.

Conventionally, awareness for a new brand takes some time to build. However, Vodafone wanted to achieve this task at the shortest possible time. Hence, Maxus and Star Network worked closely to address this challenge and came up with the idea wherein during the day of the launch, a complete roadblock on the Star Network channels was conceptualized. Considering that the Star Network is the leading network in India, this was the most appropriate platform for Vodafone launch. This strategy helped not only in achieving build rapid brand awareness but also breaks the clutter during such an important launch in the most happening category – telecom. This is a first of its kind mega media initiative in India by any brand. While the campaign was heavy on television, it also included all other media vehicles. The print campaign kicked-off on 21 September, a day after the television splash.

While the brand campaign had been addressing the transformation, the Company, on the other hand was swiftly preparing for a price war in the Indian telecom space. Indeed, it was preparing to provide mobile handsets to new subscribers at ultra-cheap prices, ranging from about $19 to $25.

Vodafone Essar launched low-priced cell phones in India under the Vodafone brand, and also co-branded handsets sourced from major global vendors. By bringing in millions of low-cost handsets from across the globe into India, Vodafone Essar distributed bundled handsets through its existing 400,000 distribution outlets. By flooding the market with its low-cost handsets, Vodafone also became a mass mobile phone brand like Nokia, Samsung, Motorola, and Sony Ericsson in addition to continuing as telecom services provider.

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Previously, similar handset-driven expansion strategies to grow subscriber bases were adopted by CDMA players, like RCOM and Tata Teleservices. Vodafone is the first GSM operator to follow the suit.

The Vodafone mission is to be the communications leader in an increasingly connected world – enriching customers' lives, helping individuals, businesses and communities be more connected by delivering their total communication needs. Vodafone's logo is a representation of that belief – The start of a new conversation, a trigger, a catalyst, a mark of true pioneering.

Vodafone's Advertising Strategies: Hutch to Vodafone

Advertising is probably one of the most frequently used vehicles for rebranding, as it is fairly easy, flexible and quick to change. It is a powerful way of reaching a broad or targeted audience quickly and is effective at signalling a change in positioning, however real or broad that may be. There are many examples where advertising has either repositioned or strengthened brands, other good examples of where advertising has built a new position for a brand or built a strong emotional link with the public are where companies have created a sort of soap opera out of their advertising.

The Advertising agency of Hutch and now Vodafone, *Ogilvy & Mather (O&M)*, had a two-fold task to achieve: announce the entry of Vodafone into India and highlight the metamorphosis of Hutch into Vodafone. O&M realised that they had a fantastic property in the Hutch pug, which they had been using for about five years. Therefore, to show the transition from Hutch to Vodafone, O&M launched a rather direct, thematic ad showing the trademark pug in a garden, moving out of a pink coloured kennel which symbolised Hutch making his way into a red one that is the Vodafone colour. A more energetic, chirpier version of the 'You and I' tune associated with Hutch was played towards the end, and it concludes with 'Change is good. Hutch is now Vodafone'.

O&M has also rolled out four commercials featuring Hutch's animated boy and girl, 'introducing' the new brand's logo to consumers. The four creatives which were of five seconds each included the duo peeping over a wall to see the logo; parasailing with the logo flying high behind them; releasing a rocket bomb wherein the explosion reveals the logo; and lastly, drawing curtains aside to show the logo.

Four other ads with the pug did the rounds of telly screens. These five and ten second spots cast the dog in situations where he, literally, saw red, using the colour as a visual mnemonic to remember the brand by. The pug was shown in a red basket, popping up from a red cart, drying himself on a red mat, and hiding in a red blanket. Each of these activities made use of the 'Hutch is now Vodafone' tagline.

The print ads, in all major languages in several leading dailies, were kept unbelievably simple: a still shot of the pug inside a red kennel. The same creative

ad was used in outdoor hoardings as well, in all the 16 circles in which Vodafone now operates.

It wasn't easy integrating Vodafone with Hutch; the latter, as is known, is a subtle, understated brand, while globally, Vodafone represents high energy, dynamism and young vitality – all represented by its bright red speech mark logo. And so they put in elements such as a more energetic tune and feel to the ads.

A few advertisements include:

- **Hutch is now Vodafone:** If you watch any of the star channels or tuned into 20-20 world cup, you would have seen this ad. On 11 February 2007, Vodafone agreed to acquire the controlling interest of 67 per cent held by Cheung Kong Holdings in Hutch-Essar for US$11.1 billion and now had to rebrand itself so it has decided to run a new ad series which piggy banked on Hutch's dog mascot and the theme "Change is Good". This required nearly 250 crore of spending by Vodafone but they have successfully painted the town red. An interesting part of this campaign was on the opening day roadblock where they made a deal with Star India so that besides them no other commercials were aired (apart from in-channel promos) on the Star India's channels for 24 hours.
- **Vodafone Valentine Day Special Ads:** Vodafone had released a simple and sweet ad for musical greetings targeted at couples during the valentine week the feature of this campaign is its simplicity and believability and is quite well received. It uses the positioning "Make the most of now" enjoy the video.
- **Vodafone Chota Credit Ink Ad:** This new ad had come as refreshing change and more so that this ad takes a very refreshing look at school and at fountain pens. This ad creates a wonderfully subtle message which really puts the point of chota (small) credit across.

Source: *http://www.mbaknol.com*

5.1 UNIT OBJECTIVES

After going through this unit,you will be able to:

- Describe the key strategic options in retailing
- Know product line, channel, structural and scale options
- Distinguish multi brand vs single brand
- Explain the shop positioning and geo strategy in retailing.

5.2 STRATEGIC OPTIONS IN RETAILING

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Retailing is the ending stage in a channel of distribution all of the businesses and people involved in the physical movement and transfer of ownership of goods and services from producer to consumer. The retailers are the intermediaries between manufacturers, wholesalers, and the consumer. Many manufacturers would like to make one basic type of item and sell their entire inventory to as few buyers as possible, but consumers usually want to choose from a variety of goods and services and purchase a limited quantity. Retail organizations enter in a whole variety of shapes and sizes. Having defined the process of retailing in the preceding unit, the aim of the unit is to present the diversity of the retail industry in terms of the variety of outlets used for the retailing activity. Retail outlets can be quite different in term of the ownership of the retail business itself, the characteristics of the premises used (the format) and the orientation of the product range. Some types of retailing have been with us for over a century, while new kinds of retail outlets emerge and develop, offering the consumer a constantly evolving choice of shopping arena which embraces an enormously wide range of businesses.

Many large retail organizations have branched-off into alternative approaches to ownership, format and product orientation. It is a part of their growth and development. So, an understanding of the scope of each of these facets of the retailers is a starting point for becoming familiar with the retail industry as a whole. Inspite of the current growth in home-based shopping methods, shop-based retailing is still the predominant section of the retail industry.

In the following sections we will study the key retail strategic options such as:

- Product line options
- Channel options
- Structural options
- Scale options
- Brand Strategy
- Shop positioning strategy
- Geo strategy

5.3 PRODUCT LINE OPTIONS

As the retailers identify the target market, the next important task is to concentrate on general product categories, product lines, and the width and depth of assortment. A hypermarket is a place that sells a wide range of products, but the depth of assortment is very limited. For example the hypermarket of USA's paint department sells only white colour. On the other hand, the specialty retailers offer a limited product line in-depth. For example the Sock Shop in New York sells 900 styles of socks, including

many one-of-a-kind items such as a pair of children's socks that plays a tune, when squeezed.

The growth of specialty retailers and discount houses in recent years has forced other retailers to change their product strategy. Many departmental stores no longer sell toys, consumer electronics, and furniture because of increased competition from retailers known as "category killers," discount chains that sell only one category of products.

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5.3.1 Multi or Limited Product Line

General merchandise retailers carry a variety of product lines, with considerable depth. Some major types of these stores include supermarkets and hypermarkets, discount stores, and department stores.

- ***Supermarkets:*** Supermarkets, a store concept imported from the USA in the twentieth century, have been a highly successful retail format. The real advantage that the supermarket offered the customer was self-service, and therefore a much faster method of shopping. Instead of requesting products over a counter, the supermarket allowed the customer to get involved with the product prior to purchase. The ability to peruse the product offering, try new products and impulse purchase, appealed to the increasingly affluent postwar customer. In addition, the space and labour-saving factors allowed retailers to offer a wider choice of product at lower prices. The supermarket was therefore quickly adopted as the principal method for acquiring 'everyday goods'. Supermarkets now dominate the retail industry; they have grown into superstores, offering more and more products, adapting changes to provide the most convenient method of shopping for the majority of household goods for the majority of households.
- ***Discount Store:*** These stores are self-service, standard general merchandise retailers regularly offering brand name and private brand items at low prices, earn lower margins, and push for high sales turnover. Defining a discount store is not an easy task, because the key characteristic is the price of the merchandise, which is subjected to individual customer perceptions. However, there has been a growing interest in the 'discounter' approach to retailing, fueled by its popularity in the USA. A discount store is a retailer that sells merchandise at a price level that is lower than 'typical high-street stores'. A discounter uses an everyday low pricing policy, where prices remain constantly low, rather than a high-low pricing policy where prices only drop at promotion times.
- ***Department Stores:*** A department store is a large-retail store organised into several departments, offering a broad variety and depth of product lines. The product mix may include food products, appliances, clothing, furnishings, and other household goods. To facilitate marketing efforts and internal management, related product lines are organised under different departments, such as apparel, cosmetics, home furnishings, and appliances, etc.

5.3.2 Exclusive Product Line

NOTES

Concentrates on the sale of a single line of products or services, such as Audio equipment, Jewellery, Beauty and Health Care, etc. Consumers are not confronted with the racks of unrelated merchandise. Successful speciality stores in India include, Music World for audio needs, Tanishq for jewellery and McDonalds, Pizza Hut and Nirula's for food services.

5.4 CHANNEL OPTIONS

According to Bennett, a marketing channel is "an organized network of agencies and institutions which in combination performs all the activities required to link producers with users to accomplish the marketing task". Designing of the distribution channels deals with the decisions that are associated with forming a new distribution channel or modifying an existing. In designing marketing channels, manufacturers have to decide what is ideal, what is feasible, and what is available. A new firm typically starts as a local operation selling in a limited market. Since it has limited capital, it usually uses existing intermediates. The number of intermediaries in any local market is c to be limited. Designing a channel system calls for analyzing customer needs, establishing channel objectives, and identifying and evaluating the major channel alternatives.

The companies can follow the direct and indirect channels to sell their products in the market.

5.4.1 Direct Channels

This is the channel when the same company that manufactures a product sells it directly to the consumer or end user. For example Dell, is a direct channel marketer. Mail-order catalog sales companies, like Lands' End, are also direct channel sellers.

5.4.2 Indirect Channels

The most complex arrangement involves several transactions, often because the merchandise is being imported. The producer sells to an agent . . . who sells to a wholesaler . . . who sells to a retailer . . . who finally sells to the consumer or end user.

Although retailers drive distribution channels, it is not usually the retailer who makes the decision to utilize one channel over the others. The producer of the product makes this decision. There are several characteristics of product lines that make them more or less appropriate for a particular type of channel. Briefly, these characteristics can be summarized as follows:

- ***The products themselves:*** If a product is perishable, like many grocery items, it requires the shortest, most direct distribution channel—which means the fewest possible intermediaries along the way. If a product is customized, like

an expensive assembled-to-order computer system, it also benefits from a short-distribution channel. There is no need for intermediaries when a customer orders a custom product directly from the company that makes it.

Long-distribution channels correspond to small purchases, either because the retailer doesn't carry much inventory or the consumer buys the item in small quantities.

- ***The type of customer:*** Who are the customers, what do they need and expect from their shopping experience, and where are they willing to go to buy this type of product? How much quantity do they buy at a time? A channel may be chosen because it best reflects the end users' buying habits. Business-to-business customers have completely different needs and buying habits than individual consumers.
- ***Market size:*** This factor encompasses two things: the population of an area and whether it is urban or rural. It is easier to sell direct to customers in a large city with lots of potential outlets for a product line. The more widely dispersed the stores, the more logical the dependence on agents and wholesalers—or on multiple retailers in different cities—to keep product sales strong and steady.
- ***The producer's level of control:*** Most top dollar clothing designers and fragrance manufacturers do not want their products showing up anywhere and everywhere. They've worked hard to build an exclusive reputation, and they expect their distribution channels to work just as hard to protect and enhance their upscale image. These producers will choose a distribution channel that ensures no discount merchants have access to their lines, and they will count on the members of their channel to honour their wishes and do not make bargain "deals."
- ***The size of the producing company:*** A producer is likely to sell direct when the company is large enough to handle the additional responsibilities that the intermediaries would otherwise provide—credit to customers, warehouses for their own goods, the ability to hire and train their own sales representatives. Smaller producers require a larger distribution chain in order to play these roles.

5.5 STRUCTURAL OPTIONS

As the business grows, in the range of its products and selling in wider geographical areas, it needs to expand its customer base. When volumes are high and complex technology, when there are only a few products and vertical integration, functional structures are best suited. They encourage specialization in activities and skills, providing for centralized decisionmaking. Before the advent of IT industry, most of the firms in India were operating with a functional structure, which works around the different functions a firm has to perform, like marketing and finance.

Check Your Progress

1. Define retailing.
2. What do you mean by a hypermarket?
3. What are the discount stores?
4. Define marketing channel.

If the firm has to make centralized decisions, have work separation on the basis of departments, have a high technical strength, and it's critical, costly and scarce, then functional structures are the answers.

NOTES

5.5.1 Physical or Virtual Models

In the initial days, the merchandising was a practice that was confined to the physical format of retailing. However, now with the advent of online retailing, the same principles of merchandising also apply to the virtual or online formats.

The decision to outsource work requires as much effort as setting up a new project. There must be synergy between the company that is outsourcing work and the one it is being outsourced to.

- Both firms must be compatible in vision, business practices, language, employees' background and profit perceptions.
- Both firms must not be too dissimilar in size, as relative importance is then sacrificed to browbeating by the big player.
- Both firms must accept the level of technology that will be required.
- Business environment of both must be transparent to the extent possible; even then, the vendor's problems will come fully highlighted to the buyer and not his facilities. A vendor's credit will be his privilege and his problems with the bank, or with his source of materials, will become the buyer's problems.

Firms farm out functions, like the entire billing and collection, and so, exists for the firm it is not directly with it. This makes for a virtual organization.

The firm has farmed out its finance functions to an outside organization. While the finance function exists, it is not a part of the firm and, hence it makes that part of the firm virtual. In India, Lotus had farmed out its finance accounts function to Price Waterhouse, as they found it cost-effective to do so.

5.5.2 Vertical and Lateral Structure

In the vertical structures, the customers have to interact with a host of people, starting from the firm's salesman, dealer or distributor, transporter and handler of goods, and the bankers. Anyone among these can prove to be the weak-link in the chain, disrupting the entire operation and leaving the customer at the mercy of some irresponsible person, who is unmindful of the needs of the customer. Due to the layers of hierarchy surrounding the top management, firms usually remain unaware of what is happening at different levels.

In order to obviate the problem, firms have to look at their core processes which are:

- Product Development process
- Demand Management process
- Order Fulfilment process

In these process segregations, customer orientation is kept in mind and both internal and external customers have to be involved with only one set of people in the firm. This will make it easy for the customers to deal with the firm. Being the main purpose of the firm's very existence, smoother the road is for the customer to reach the firm, the better it will be for the latter. Firms spend huge amounts on advertising, promotion, and retail trade, but none of them will make an impact on the firm's trade, if the customers find it is inaccessible to them, either physically or on the mental level.

In cross-functional structures, it is easier to let the customer to help measure the firm's performance.

An organization should feel satisfied only on getting a positive verdict from its customers groups, which can be assumed through the market surveys. As there are tourist guides for major tourist spots, customers of both the industrial customer products, should also be guided by a knowledgeable person through the often-treacherous route to getting his products. As it is cross-functional teams that produce the results, the reward system should be based on team efforts and rewards should be given to teams and not the individuals. Teams should decide about the number of tasks they do; they should be encouraged to delete the tasks that do not add value to the customers. This will help the teams to remain focused on the value-adding tasks, which will bring better and quicker results.

The entire process of order fulfillment can be done by one unit, which looks at the business from the customer's viewpoint. In such cases, the structures revolve round processes rather than functions. To make the structure a success, it is important to have an owner or a person responsible for the process and the sub-processes. There should be owners of cross-functional teams as well. It is necessary to identify the core processes of the firm from the cross-functional teams, other than the three mentioned, namely product development, demand management, and order-fulfillment process.

The structure helps in understanding the customer's viewpoint better, which means they can influence the firm's decisions. The structure helps in understanding the training needs of the employees, in proper budgeting from the customer's viewpoint, and adds value to the customers.

The retail industry has found the virtues of flat organizational structures, which is why they are oriented towards them.

5.6 SCALE OPTIONS

On the basis of scale the retail strategy covers the following areas:

1. Hypermarkets

It is a special kind of combination store which integrates an economy supermarket with a discount department store. A hypermarket generally has an ambience which attracts the family as a whole. Pantaloon Retail India Ltd. (PRIL) through its

hypermarket "Big Bazar", offers products at prices which are 25 - 30 per cent lower than the market price.

NOTES

2. Supermarkets

Supermarkets, a store concept imported from the USA in the twentieth century, have been a highly successful retail format. The real advantage that the supermarket had offered the customer was self-service, and therefore a much faster method of shopping. Instead of requesting products over a counter, the supermarket allowed the customer to get involved with the product prior to purchase. The ability to preuse the product offering, try new products and impulse purchase, appealed to the increasingly affluent postwar customer. In addition, the space and labour-saving factors allowed retailers to offer a wider choice of product at lower prices. The supermarket was therefore quickly adopted as the principal method for acquiring 'every day goods'. Supermarkets now dominate the retail industry; they have grown into superstores, offering more and more products, adapting the changes to provide the most convenient method of shopping for the majority of households.

3. The Malls

Many retail stores operating at one place form a mall. A mall would consist of several retail outlets each selling their own merchandise but at a common platform.

4. Large

Macro-organizations deal with the entire organization, whereas micro-structures deal with parts of the entire organization. In a small firm, where the business is restricted to a smaller area, when there are only two to five people working, it will have a simple structure as shown below:

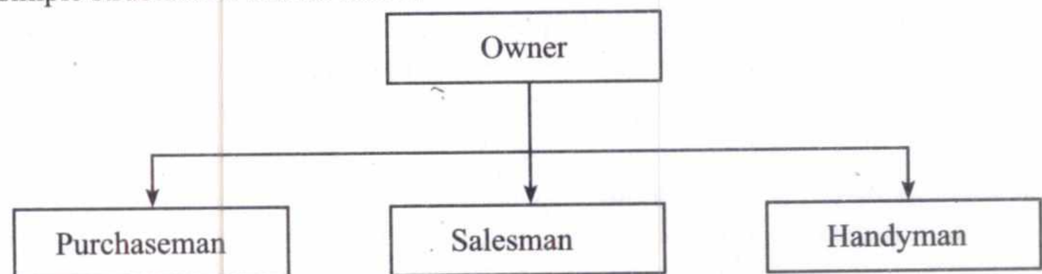


Fig. 5.1: Simple structure of a company

Many retail stores, repair shops, and service units have this type of structure. The roadside dhabas, hair-cutting saloons and photocopying shops are typical examples of simple structure.

- These structures make their operation highly informal and are directly supervised by the owner.
- These firms can be flexible in their approach to decisionmaking and, at times, they can outbid bigger firms.
- These structures can develop a worker's personality, creativity, and individualism.

The main drawback of the structure is that there is no upward mobility for its members, and it reduces the chances of recruiting the right persons for the right job. In a one-man show, personal likes and dislikes which may change with the owner's moods, are used for hiring and firing and, hence can be unpredictable and irrational.

Some other important examples of macro or large structures are:

- Functional structures
- Divisional structure
- Matrix structure
- International structure.

5. Small or Micro Model

Besides the macro structures, the firms form micro or small structures for specific tasks and time durations. Initially they are formed as groups; with commonality of purpose and objective, the groups get converted into teams. In teams, there is joint responsibility and tasks are assigned to team members. Care is taken to see that there is no overlap of work between members of the team. The process of groups getting converted into teams is an evolving one. This evolutionary process is given below:

- Forming
- Storming
- Norming
- Performing.

As the groups are formed, the members air the different views and opinions on the assigned responsibility. As a result, the meeting can become a little wild. As the members start understanding each other's viewpoints, as also the objectives of the team, the group gets converted into a team.

5.7 BRAND STRATEGY

Brand Management is the application of marketing techniques to a specific product, product line, or brand. It seeks to increases the product's perceived value to the customer and thereby increases the brand franchise and brand equity. Marketers perceive a brand as an implied promise that the level of quality people have come to expect from the brand will continue with future purchases of the same product. This may increase the sales by making a comparison with the competing products more favourable.

According to American Marketing Association (AMA) a brand is a "name, term, sign, symbol or design or a combination of them, intended to identify the goods and services of one seller or a group of sellers and to differentiate them from those of competition".

A brand, in short, is an identifier of the seller or the maker. A brand name consists of words, letters and/or numbers that can be vocalized. A brand mark is the visual

representation of the brand like a symbol, design, distinctive colouring or lettering. Mercedes Benz is a brand name and the star with it is a brand mark.

NOTES

5.7.1 Multi Brand vs. Single Brand

The branding elements help establish preference for particular products and/or retailers in the consumer's mind. The most common retail practice is to sell an assortment of manufacturers' brands within a single store, which is the major driver of sales revenue *(Ailawadi and Keller, 2004)*. Competition between retailers increases when each retailer carries the same brand names. Thus, multi-brand retailers (e.g., Macy's, Home Depot) build "own brands" by linking their names with unique services, product assortments, atmospherics, etc. as a differentiation strategy *(Ailawadi and Keller, 2004)*. Retailers have engaged in private label differentiation strategies (e.g., Arizona Jeans at Penney's), as well as utilizing exclusive co-brand agreements with other national brands (e.g., Isaac Mizrahi at Target) in an attempt to reduce intra-format competition. The strategy in both the cases is to increase the profits through decreased competition caused by reduced ability of the customer to form comparisons.

Single-brand retailers extend private labels to their ultimate expressions. They utilize an "own brand" strategy for virtually all of the products sold in their stores and on their websites. Examples of these retailers in the marketplace include Gap, American Eagle, and Bath and Body Works. These retailers utilize the single-brand strategy to effectively eliminate price and product comparisons, which are inherent in a multi-brand offering. This strategy, however, is not without risk. Single-brand retailers predicate success entirely based on the customers' loyalty to their brands.

5.7.2 Franchise vs Ownership Strategy

Franchising is more appropriate for the distant markets where operational costs are high and local regulation is unfavourable to foreign ownership. Franchising is used frequently by grocery retailers, with South African-based Shoprite Holdings Ltd. and Pick n Pay Stores Ltd. employing this model within their home market as well as abroad. However, it should be noted that the companies do not employ franchising across the board and also run corporate stores. Generally, the largest stores located in neighbouring countries tend to be corporate-owned as they are the companies' flagships and require greater monitoring. Of Pick n Pay's 379 franchise networks, the majority are convenience stores and pharmacies, while all hypermarkets and large supermarkets are corporate-owned. The company's operations in Mauritius and Mozambique, where it started business in 2010 and 2011, respectively, are based on franchise agreements as the company needs local support from a business partner on the ground. The same goes for Shoprite, with a dedicated franchise arm named OK Franchise Division (OKFD) operating 226 shops in South Africa and 43

abroad. The franchise stores are also small-scale outlets such as convenience and liquor stores targeting the lower-middle classes in second-tier cities and rural areas. This division exists only in the nearby markets of Botswana, Lesotho and Namibia while operations in other African countries are monitored by the group's subsidiary–Shoprite International Ltd.

Franchising is an ideal way to quickly expand a retailer's footprint at limited cost to the company, with investment instead coming from the franchise partner in a given market. However, it requires a very strong support platform to help franchisees reach their targets and correctly introduce a global brand to their own market so that it does not conflict with the brand's image in the retailer's home market.

Goods are usually exported from a retailer's home country, which demands an efficient supply chain and the capacity to be able to export across potentially long distances. Exporting comes with the additional risks of volatile currency fluctuations and import duties that can change at a moment's notice and can lead to higher than expected retail prices and/or a loss of competitiveness for the brand. Pick n Pay, for instance, decided in June 2011 to centralise its distribution facilities in South Africa in order to further expand its franchise network throughout Africa.

5.8 SHOP POSITIONING STRATEGY: MANAGING UNIQUENESS AND IMAGE

An image represents how a given retailer is perceived by consumers and the others. A firm may be seen as innovative or conservative, specialized or broad-based, discount-oriented or upscale. The key to a successful image is that consumers view the retailer in the manner the firm intends.

Through positioning, a retailer devises its strategy in a way that projects an image relative to its retail category and its competitors and that elicits a positive consumer response. A firm selling women's apparel could generally position itself as an upscale or mid-priced specialty retailer, a department store, a discount department store, or a discount specialty retailer, and it could specifically position itself with regard to other retailers carrying women's apparel.

Two opposite positioning philosophies have gained popularity in recent years: mass merchandising and niche retailing. Mass merchandising is a positioning approach whereby retailers offer a discount or value-oriented image, a wide and/or deep merchandise selection, and large store facilities. The Bay has a wide, deep merchandise mix, whereas Sport Check has a narrower, deeper assortment. These firms appeal to a broad customer market, attract a lot of customer traffic, and generate high stock turnover. Because mass merchants have relatively low operating costs, achieve economies in operations, and appeal to value-conscious shoppers, their continuing popularity is forecast.

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Most companies that try to find this elusive middle road between the specialty stores and the mass merchants fail. The risk, as you probably already suspect, is that by trying to be all things to all people, you end up being caught in the middle with a muddled value proposition that no one understands. Thus far, though, Loblaws in particular, is showing that a very strong value proposition in one area can be leveraged into other areas as long as these areas satisfy an important customer need (such as convenience) and, equally as important, as long as the company can execute this proposition on a consistent basis. In essence, the positioning changes from one based on price or product to one that includes convenience as a more significant driver. Such a strategy is much easier to implement, if you already have the foot traffic, of course. After all, household penetration rates for grocery stores are almost 100 per cent.

Figure 5.2 shows a retail positioning map based on two shopping criteria:

1. price and service and
2. product lines offered.

Our assumption: There is a link between price and service (high price equals excellent service). Upscale department stores offer outstanding customer services and carry several product lines. Traditional departmental stores (such as Sears) carry more electronics and other product lines than do upscale stores. They have trained sales staff to help customers. Discount department stores (such as Zellers) carry a lot of product lines and rely on self-service. Membership clubs (such as Costco) have a limited selection in a number of product categories. They have very low prices and plain surroundings.

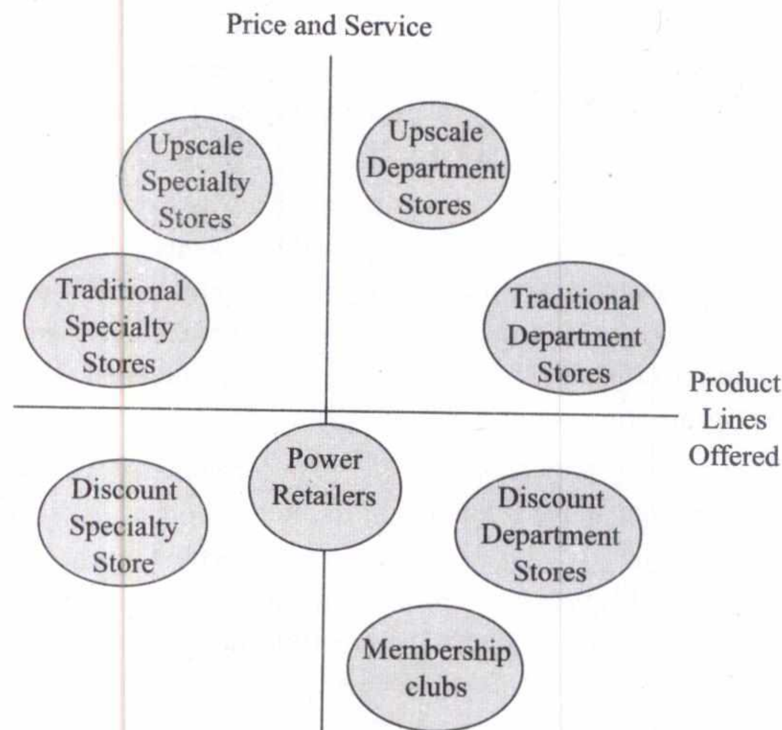


Fig. 5.2: Selected retail positioning strategy

Upscale specialty stores (such as Harry Rosen) offer outstanding customer service and focus on one general product category. Traditional specialty stores (such as Gap) have trained sales staff to help customers and focus on one general product category. Discount specialty stores (such as Old Navy) rely more on self-service and focus on one general product category. Power retailers (such as Indigo Books & Music) offer moderate services and prices and a huge assortment within one general product category.

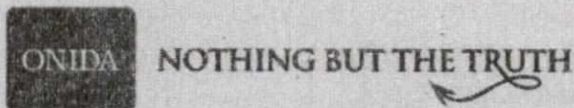
Case Study of Onida: Brand Analysis and Revival Strategies

Story so far.....

Household name in television Onida was founded in 1981 and by1982, the company had started assembling television sets at its own factory. Superior products backed up by distinctive design, cutting-edge advertising and purposeful marketing made Onida a household name in India. In addition to televisions, the company has recently made a foray into other household appliances, including air-conditioners, washing machines, DVDs and home theatre systems. For business and industry, Onida has introduced state-of-the-art multimedia presentation products.

Onida, is still well known for its brand mascot 'The Onida Devil' and its punch line "Neighbour's Envy Owner's Pride". In the 1980s, when owning a television set was considered a luxury, Onida launched its advertising campaign on the platform of envy, to promote its television range.

A green-horned devil with a long pointed tail was the spokesperson in all its ad campaigns till the 1990s. The 'Devil' helped Onida gain substantial market share and the brand recall among the customers and became one of the top three television brands in the country. In 1998, Mirc Electronics (the owner of Onida brand) decided to abandon the "Onida Devil" in its communication campaigns as the brand mascot no longer appealed to the Indian consumer.



However over a decade now the brand is suffering

In1998, Onida withdrew the mascot citing the same reasons that they have given now. The explanation given in 1998 was that Indian consumers no longer find the Devil, who symbolizes Envy, relevant. So they scrapped the famous tagline " Neighbour's Envy, Owner's Pride " together with the Devil. But ever since it changed the tagline and mascot, Onida never found a powerful positioning . After six years of drifting around, Onida brought back the Devil with much fanfare in 2004. Media and brand enthusiasts welcomed the move and eagerly awaited

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the Devil in a changed modern avatar. But the comeback was a damp squib. The brand suffered heavily due to the ownership issues within the company. There had been no brand promotion or new product launches worth talking about since 2004. If at all there were launches, promotions were not sufficient enough.

Why Onida as a Brand is Ailing?

- ***Internal management problems:*** One of the main reasons for this is the fight between the brothers : Gulu and Sonu Mirchandani and their brother -in- law Vijay Mansukhani over the control of the Onida group. The fight has severely eroded the share of the brand and even the marketing of Onida. Onida was staging a recovery after the successful relaunch of the brand and the return of the Devil. But the family feud has made the things difficult for the brand.
- **Frequent change in Advertising:** What is interesting about Onida is the branding. The creative duty of the brand has partly moved from one marketing agency to another i.e. from Rediffusion to McCann Erickson. But as usual, when the agency changes, the entire brand elements changes. For Onida, the change till now is always for the worse unfortunately. When O&M took the brand from Avenues, the famous tagline "Neighbour's Envy, Owner's Pride" and the Devil was taken off. The brand suffered for almost 10 years and has never recovered since. The change of agency from O&M to Reinfusion again changed things and Devil returned in a new avatar and a new tagline "Nothing but the truth" has now come into existence. The new arrangement is not making the things better. In 2007, Onida launched a new ad campaign for its air conditioner and with a new tagline "It can change your life". Now the new campaign for the air conditioner features a new Devil and the tagline has again changed to "Experience the desire". Onida, which already is in deep trouble, is moving on to further confusion with an unnecessary change in the positioning strategy. The brand has not been able to consolidate the earlier theme based on 'truth'. Even before establishing it, the brand has repositioned itself again.
- **Aging customer base:** The customers of Onida have grown older with the times and the brand has failed to connect itself to the current generation. The "devil" in the advertisements in not helping it either.

The following factors have diluted Onida's Brand Equity

Onida is proving to be a case study about "How to mess up a wonderful brand".

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As a marketer, the ownership of the brand should be with the Company and not with the agency. But what is seen is that the brand managers 'outsource' the strategy to the ad-agency. Things are consistent till the agency handles the account. But when the agency moves on, the new agency resists continuing the existing strategy since it was crafted by the competitor. So whatever be the quality of the existing branding strategy, the new agency will try to change it. This has resulted in many brands, drifting from time-tested successful themes to uncharted territory and often sink in confusion. Onida has spent about ₹ 40 crore on advertising and promotions in 2008 and its ad spends are estimated at ₹ 60 crore for the current year. Mindshare will handle the media duties for Onida.

- ***Brand amnesia:*** For old brands, as for old people, memory becomes an increasing issue. When a brand forgets what it is supposed to stand for, it runs into trouble. The most obvious case of brand amnesia occurs when a venerable, long-standing brand tries to create a radical new identity, such as when Onida tried to replace its original tagline with new one. The results were disastrous.
- ***Brand fatigue:*** Some companies get bored with their own brands. This can happen to products which have been on the shelves for many years, collecting dust. When brand fatigue sets in creativity suffers, and so do a sale which was and is the case with Onida.
- ***Brand paranoia:*** This is the opposite of brand ego and is most likely to occur when a brand faces increased competition. Typical symptoms include: a tendency to file lawsuits against rival companies, a willingness to reinvent the brand every six months, and a longing to imitate competitors.

Comparison with Competitors

Market characteristics

- The consumer goods market in India is of USD 4.87 Billion.
- Around 45 companies cater to this market. Onida is having a very small share of this market.
- In the Indian market space, Brand loyalty is giving way to "value-for-price" contest.
- There is an intense competition on price.
- The companies are focusing on product differentiation, value added offerings and exchange offers.

The MNCs like LG, Sony, Samsung, Phillips and Videocon command a high market share. These brands score high on following factors:

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- ***Product Line:*** These companies (LG, Sony, Samsung, Phillips and Videocon) have a wider product range compared to Onida to target customers from all segments.
- ***Positioning:*** Their image of a multinational company in the minds of consumer helped them to grab market share instantly. It built a perception that these companies have better technology. Videocon on the other hand, leveraged its MNC image by it tagline "Indian MNC".
- **Advertisements:** LG has Abhishek Bachhan, Samsung has Aamir Khan, Videocon has Amithabh Bachhan and now Sharukh Khan, and all these players have used celebrities to a good effect to endorse their brands. On the other hand, Onida has an inconspicuous young couple which does not make an impact…the devil in this case would had been very powerful.
- **Visibility:** The companies are associated with events and sponsorships like LG and Videocon are associated with cricket. This has resulted in better brand visibility.

Strategies to Revitalize Brand Onida

In order to revamp its position and brand value in the market, Onida should use the following strategies:

- ***Better positioning:*** Onida should stick with a uniform positioning strategy rather than changing it with time as they did.
- ***Celebrity endorsement:*** The company should go for a better adverting. The company can rope, in a celebrity to endorse its brand. In this way, the brand can be benefited from celebrities brand equity. We suggest rope-in a sports icon or a bollywood star rather than the inconspicuous couple(as per the current ads) where the recall value is poor .
- **Association with events:** The company has lost its place in the minds of customers. Also, the loyal customers of Onida have grown older. To regain old customers and to regain visibility, association with events can help. Onida's problem of low visibility will be solved with its sponsorship of event like rock shows, games, marathons, etc.
- ***Line extension:*** The company should go for line extension in value segment so as to target more customers in the lower segment. They should introduce more variants in 14", 20" and 21" segment. These products will target the young and first-time buyers. These buyers will have an emotional attachment with the brand and as they graduate to the high-end segment, Onida can target them with its high-end products. Onida is now in one of the most difficult times. The brand needs to come out with a product that will change the game. Changing the mascot is secondary at this point of time.

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- ***Marketing mix:*** Onida is facing a marketing problem and more than a branding problem. Everything is fine with the brand. People recognize the brand. The issue is on a larger perspective. It needs to concentrate on its entire marketing mix not just the brand elements. Onida needs to convince the customers that its products are better designed and technologically superior. It is about managing perception. Features can be copied by competitors easily but changing perception is a difficult task.

Source: *http://www.mbaknol.com*

5.9 GEOSTRATEGY: NATIONAL, REGIONAL AND GLOBAL SPREAD

Retailing is increasingly a global business. A more structured retail industry, with more multiple retailers (those with more than one outlet), is a sign that an economy is developing, as organizations specialize and gain economies of scale. Additionally, when disposable incomes rise, retailers play an active part in distributing increasingly discretionary goods to centres of population. Emerging markets are a real (although highly complex) opportunity for experienced retailers, especially if they are faced with high levels of retail provision and therefore competition in their traditional markets.

The geography of national, transnational, regional and continental places is a time-space of physical and virtual realities. Forms of power and influence of power radiate from them in all directions. Power and administration of territory in the large complex economic and political organisms -regional blocks - confront each member's historie reality, the inequalities of the rates of development, culture and social levels. These realities are hard to harmonize and eventually categorize hegemonic centers of power and a national fringe of dependence. Global geostrategy, therefore, takes over, redefines and reorders productive circulation spaces, establishing new relations of power and administration of territories. Consequently, action and power materialize around a physical object that is the global-place, transforming it into a global geographic object in which economic practices are confined and transterritorial power expressed.

Multilateral agreements in the new context intend to assure benefits and comparative edges between countries and groups of countries. Nevertheless, *Bauman (1999:36)* refers to a recent multilateral investment agreement, "which to all extents and purposes ties the hands of national governments and unties those of extra territorial companies". But this is a reality of the new transterritorial economic time-space dimension, indicating the main landmark of weakening the sovereignty.

The following are the key definitions provided by different authors for geostrategy:

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"Geostrategy is about the exercise of power over particularly critical spaces on the Earth's surface; about crafting a political presence over the international system. It is aimed at enhancing one's security and prosperity; about making the international system more prosperous; about shaping rather than being shaped. A geostrategy is about securing access to certain trade routes, strategic bottlenecks, rivers, islands and seas. It requires an extensive military presence, normally coterminous with the opening of overseas military stations and the building of warships capable of deep oceanic power projection. It also requires a network of alliances with other great powers who share one's aims or with smaller 'lynchpin states' that are located in the regions one deems important."

—James Rogers and Luis Simón, "Think Again: European Geostrategy"

"The words geopolitical, strategic, and geostrategic are used to convey the following meanings: geopolitical reflects the combination of geographic and political factors determining the condition of a state or region, and emphasizing the impact of geography on politics; strategic refers to the comprehensive and planned application of measures to achieve a central goal or to vital assets of military significance; and geostrategic merges strategic consideration with geopolitical ones."

—Zbigniew Brzezinski, Game Plan (emphasis in original)

"For the United States, Eurasian geostrategy involves the purposeful management of geostrategically dynamic states and the careful handling of geopolitically catalytic states, in keeping with the twin interests of America in the short-term preservation of its unique global power and in the long-run transformation of it into increasingly institutionalized global cooperation. To put it in a terminology that hearkens back to the more brutal age of ancient empires, the three grand imperatives of imperial geostrategy are to prevent collusion and maintain security dependence among the vassals, to keep tributaries pliant and protected, and to keep the barbarians from coming together."

—Zbigniew Brzezinski, The Grand Chessboard

Geostrategy is the geographic direction of a state's foreign policy. More precisely, geostrategy describes where a state concentrates its efforts by projecting military power and directing diplomatic activity. The underlying assumption is that states have limited resources and are unable, even if they are willing, to conduct a tous asimuths foreign policy. Instead they must focus politically and militarily on specific areas of the world. Geostrategy describes this foreign-policy thrust of a state and does not deal with motivation or decisionmaking processes. The geostrategy of a state, therefore, is not necessarily motivated by geographic or geopolitical factors. A state may project power to a location because of ideological reasons, interest groups, or simply the whim of its leader.

—Jakub J. Grygiel, Great Powers and Geopolitical Change (emphasis in original)

"It is recognized that the term 'geostrategy' is more often used, in current writing, in a global context, denoting the consideration of global land-sea distribution,

distances, and accessibility among other geographical factors in strategic planning and action... Here the definition of geostrategy is used in a more limited regional frame wherein the sum of geographic factors interact to influence or to give advantage to one adversary, or intervene to modify strategic planning as well as political and military venture."

—Lim Joo-Jock, Geostrategy and the South China Sea Basin (emphasis in original)

"A science named "geostrategy" would be unimaginable in any other period of history but ours. It is the characteristic product of turbulent twentieth-century world politics."

-Andrew Gyorgi, The Geopolitics of War: Total War and Geostrategy (1943).

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Retailing business in India is undergoing rapid transformation. The kirana store is a major element in the retail business in India. The emergence of new retail formats in retailing sector has attracted attention of many like-government, large corporations, economists and general public in recent years. The environment of retailing business in India is witnessing several changes on the demand side due to increased income and changes in Indian consumers' preferences. The driving forces in Indian retail sector are: rapid economic development in recent years, changes in consumers' preferences, improvements in civic situation, liberalization policy and globalisation.

To satisfy the needs of global consumers, retailers have to meet these demands through the products they offer, whether these are principally food, fashion or multiple retailers. Consumers experience different cultures when they travel for work or pleasure and they have access to the Internet, television magazines, etc. and they demand products, which reflect these tastes. Retailers are sourcing the products globally for the fashion or cosmetic or electronic gadget that is new and exciting for their challenging consumer base.

A fundamental question to the discussion of retail globalization asks why retailers follow such a strategy. Invariably operating in a new market is a high cost and high risk method of growth. Indeed, it has been suggested, "Global retailing demands huge investment and gives no guarantee of return" *(quoted in Lamey, 1997).*

While there are certainly successful global retailers, there are many examples of failures also. Failure is, undoubtedly, the result of a series of complex and interrelated factors. For example, although a successful domestic retailer, Boots, the Chemist has had a number of global ventures that it has subsequently pulled out of. It has retreated from Canada, New Zealand, France and the Netherlands and most recently its Japanese operation. It still has stores in Taiwan and concessions in Thailand.

Just because a retailer successfully globalizes into one market, does not mean it can necessarily repeat this success elsewhere. For example, Tesco entered Ireland in 1978, only to pull out in 1986 after incurring substantial losses. Tesco re-entered the Irish market in the late 1990s, and also operates stores in Eastern Europe and Asia.

It is assumed that retailers want to grow their company, and then they have three options *(Pelegrini, 1994; Treadgold, 1991)*:

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- From operating their core offer in the home market, they may choose to follow a strategy of sectoral expansion, whereby they move into new formats, retail sectors or even outside the retail industry.
- The second growth strategy open to retailers is to remain with the core offer and to transfer this is that they are experienced in the operation; however, they may need to learn about and adapt to new market conditions.
- The third method of growth is to use a combined strategy, whereby a company may move away from its core offer and also to globalise. Although this may balance the risks somewhat it may mean the board lose focus. If this strategy is taken to its extreme, the company then becomes a global portfolio or holding company.

Kingfisher operates in a number of chains in sectors including DIY (e.g., B&O, Castorama) and electrical (e.g., Comet, Darty) but is divesting in general merchandise (e.g., Woolworth's). It has stores in numerous European countries as well as the far East, Canada and Brazil. The company has also ventured into e-commerce. The advantage of this strategy is the array of opportunities it offers; however, it also increases the problems associated with working in unfamiliar markets and in unfamiliar sectors. A danger is that the company may lose direction. It is a strategy perhaps more appropriate for experienced global companies.

5.10 SUMMARY

- Retailing is the ending stage in a channel of distribution all of the businesses and people involved in the physical movement and transfer of ownership of goods and services from producer to consumer.
- After identifying a target market, retailers decide in general product categories, product lines, and the width and depth of assortment.
- The growth of specialty retailers and discount houses in recent years has forced other retailers to change their product strategy.
- General merchandise retailers carry a variety of product lines, with considerable depth. Some major types of these stores include supermarkets and hypermarkets, discount stores, and department stores.
- Designing of the distribution channels deals with the decisions that are associated with forming a new distribution channel or modifying an existing.
- In the vertical structures the customers have to interact with a host of people, starting from the firm's salesman, dealer or distributor, transporter and handler of goods, and the bankers.
- Due the layers of hierarchy surrounding the top management, firms usually remain unaware of what is happening at different levels.
- A hypermarket generally has an ambience which attracts the family as a whole.

Check Your Progress

Fill in the Blanks

5. In the .... the customers have to interact with a host of people, starting from the firm's salesman, dealer or distributor, transporter and handler of goods, and the bankers.
6. In .... structures, it is easier to let the customer help measure the firm's performance.
7. A .... in short is an identifier of the seller or the maker.

- Brand Management is the application of marketing techniques to a specific product, product line, or brand.
- Franchising is an ideal way to quickly expand a retailer's footprint at limited cost to the company, with investment instead coming from the franchise partner in a given market.
- Most companies that try to find this elusive middle road between the specialty stores and the mass merchants fail.
- Emerging markets are a real (although highly complex) opportunity for experienced retailers, especially if they are faced with high levels of retail provision and therefore competition in their traditional markets.

5.11 KEY TERMS

- **Retail Strategy:** A systematic plan that provides the retailers the overall framework for dealing with competitors as well as technological and global movements.
- **Retailing:** Business activity of selling goods and services to final consumers.
- **Category Killers:** A large retail chain store that is dominant in its product category.
- **Hypermarkets:** A very large store that carries products found in a supermarket as well as merchandise commonly found in departmental stores.
- **Organised Retailing:** It refers to the trading activities undertaken by licensed retailers, that is, those who are registered for sales tax, income tax, etc.
- **Unorganised Retailing:** It includes the traditional formats of low-cost retailing, for example, the local kirana shops, owner-operated general stores, *paan/beedi* shops etc.
- **Brand:** An identifying symbol, words, or mark that distinguishes a product or company from its competitors.

5.12 ANSWERS TO 'CHECK YOUR PROGRESS'

1. Retailing is all about the distribution of goods and services because retailers play a key role in the route that products take after originating from a manufacturer, grower or service-provider to reach the person who consumes.
2. A hypermarket is a place, that sells a wide range of products, but the depth of assortment is very limited. For example, the hypermarket of USA's paint department sells only white colour.
3. A discount store is a retailer that sells merchandise at a price level that is lower than 'typical high-street stores'.
4. According to Bennett, a marketing channel is "an organized network of agencies and institutions which in combination perform all the activities required to link producers with users to accomplish the marketing task".

5. Vertical structures
6. Cross-functional
7. Brand

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5.13 QUESTIONS AND EXERCISES

Short Answer Questions

1. Define multiple product line.
2. State the difference between vertical and lateral structure.
3. Define branding.
4. Write a short note on franchise vs. ownership strategy.

Long Answer Questions

1. What are the key product line strategies?
2. What are the different types of retail structures?
3. Write a note on multi vs. single brand strategy.
4. Discuss the importance of retail franchise.
5. Discuss the global trends in retail business.
6. Explain strategic options in retailing.

UNIT 6 EXECUTION AND AUDIT OF STRATEGY

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Structure

6.0 INTRODUCTION

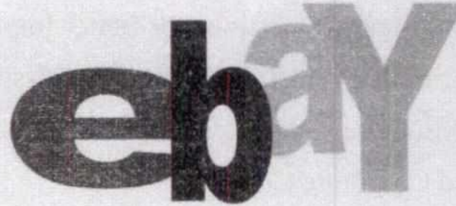
The task of strategic retail management is far from complete after strategies have been formulated and a concrete strategies plan has been prepared. Then it is the job of strategists to put the plan into action. It is important to consider the interrelationship between the formulation and implementation of retail strategies. It is to be noted that the division of retail strategic management into different phases is only for the purpose of orderly study. In real life, the formulation and implementation processes are intertwined. Two types of linkages exist between these two phases of strategic

management. The forward linkages deal with the impact of the formulation on implementation while the backward linkages are concerned with the impact in the opposite direction.

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Caselet: eBay's Business Model

Founded on 1995 by Pierre Omidyar, eBay was considered a pioneer in the online auction industry, whereby people are brought together on a local, national and international basis to serve the purpose of creating a person-to-person community where individual could have an equal access through the same medium which is the Internet. eBay offers wide varieties of products and services for bargain hunters, hobbyists and collectors and sellers, changing the way people engage in trading hence eBay has changed the face of e-commerce from its inception. Today, eBay is continuously the brand preference with over 39 market presence and with $60 billion of the total value of sold items on the site's trading platform.



Basically, eBay introduced several crucial innovations tailor-made for the internet at the business level, a strategy which was conceived to be an improvisation. The online auction business model is where eBay served as the value-added facilitator of trade between a buyer and a seller in a highly individualistic manner. The online auction model developed by eBay marked an important extension of e-commerce, offering millions of individuals a low-cost opportunity to engage in a new type of economic activity.

When Whitman arrived in 1998 as eBay's second president and CEO, eBay became a public-listed company in September of that year, brand building recognition at eBay was prioritized. eBay's registered users had grown six-fold, to over 2 million. Under Whitman's leadership, the company grew to over 200 million users globally and over $7 billion in revenue. During her tenure, Whitman helped eBay enter China, integrated globally recognized brands like PayPal and Skype into eBay portfolio and successfully steered the company through the dot-com bust by staying focused on its core users and core competency-online auctions. eBay made acquisitions in order to support its growth as a supplement to word-of-mouth and public relations advertising into tapping opportunities through national magazines and online alliances. These acquisitions aid in the expansion and improvement of the company's services.

eBay is currently the third top-ranked online auction company within its industry, with nearly one-third of U.S. internet users registered on its site. The company

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is a substantial threat internationally as well, competing in the Asian, European, and Latin American markets. The online auction industry commands significant revenues that continue to increase to the projected amount of $229.9 billion by 2008. The outlook for both eBay and the online auction industry holds great promise, as is evidenced through the study of SWOT analysis, the driving forces of the industry, key success factors, eBay's financial status, and eBay's positioning in the market. eBay must also keep in mind the key strategic issues facing the company.

eBay's Business Model

eBay's business model was based on creating and maintaining a person-to-person trading community. After implementing their model, eBay has been able to build strategic partnerships, continue to make innovative changes and improvements, and monitor its internal and external environments for possible future opportunities. This has given them the prestige of being the world's largest online auction company.

Target Market

Sellers and buyers who transact online

Largest Online Auction

From its beginning in the mid-1990s, eBay has been growing in leaps and bounds. They now have over 94.9 million registered users in more than 150 different countries. eBay's founder Pierre Omidyar did not even see the tremendous possibilities that eBay had when it was first developed over ten years ago. eBay now holds the top spot in the online auction industry. In the United States alone, one-third of the population is already registered with the site and with increasing use of the Internet that number is sure to grow.

Over 27,000 Different Categories

The wide variety of products offered on eBay gives them a competitive advantage above all other online auction sites. They are like the Wal-Mart of the Internet! They say that anything you want, you can find on eBay.

Partnerships with International Companies

Partnerships abroad can be crucial to a company succeeding in foreign markets. By partnering with established foreign companies, like Alando in Germany, iBazar in France, Tradera in Sweden, Internet Auction in South Korea and Bazee in India, eBay is able to easily transition into that countries culture with the help of citizens who work with the partnering company. eBay also immediately acquires ties with companies in the foreign market, which makes it simple for them to

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make more partnerships and alliances. In 2007, eBay established a partnership with a Beijing-based Internet company, Tom Online Inc., taking 49 per cent stake in the company and possessing administration rights. This allows ebay to have strong local management that understands the culture and consumer desires. Tom eBay has done a lot of efforts to win the trust of Chinese consumers such as using escrow service to hold payments until buyer confirms satisfactions with the product.

Over 250 Alliances

eBay aligned with Yahoo! In 2006 in a marketing alliance to promote revenue growth for both companies. Under this alliance, Yahoo! became the exclusive advertising provider on eBay and PayPal became Yahoo!'s preferred provider. Google also aligned with eBay in 2006, making Google the primary advertiser on eBay's websites outside of the United States. Google sought to integrate Skype into the alliance as a method to further sales from Web advertising. eBay also holds alliances with some of the largest companies in the world. They include Northwest and Southwest Airlines to enable PayPal as a method of payment option, and with Wal-Mart and My-Space.com to promote the growth of Skype, and Buy.com in 2008, a middle-of-the market tool that links retailers with buyers and immediately added five million fixed-priced listings to the eBay marketplace. These alliances created more opportunities for eBay to advertise and reach potential customers.

Acquisition

To increase its geographic reach and to move into related businesses such as online payments, to obtain technology that will strengthen its product differentiation, eBay has completed many acquisitions such as Half.com in 2000 to enter the fixed market price for products like used books, CD's, games and DVD's; Paypal to enable sellers to receive online payments from buyers' credit cards or checking account; Shopping.com that allows people to search for products and compare, Price and Rent.com that connects landlords and tenants online, charging property owners for each lease produced. eBay then acquired 28 per cent of Craigs list in 2004 and Skype in 2005, an internet phone provider to allow buyers and sellers to communicate prior to transactions. Other acquisitions would include Stubhub.com in 2007, a secondary ticket place marketplace that integrates guaranteed fulfillment and shipment using FedEx. And Fraud Science Ltd in 2008, to detect the fraudulent purchases and provide eBay with the technology that it needs, to improve the level of trust that it provides.

Positioning of eBay

eBay positions itself in the online auction industry using a broad differentiation strategy. By choosing this strategy, eBay determined that the best way to achieve a sustainable competitive advantage over its rivals was to differentiate their

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service. The way in which eBay has set their online auction site apart from its competitors has lead customers to prefer their site over other online auctioneers and retailers.

eBay's Broad Differentiation Strategy

eBay has created a one-stop-shopping experience that is appealing to large corporations, independent entrepreneurs, and individual buyers and sellers. They have created value through many facets of their business that appeal to their customers and differentiate them from the competitors. The main ways that eBay differentiates themselves is through:

- ***Variety of products offered:*** When customers visit eBay they can search for virtually any product. eBay boasts a category variety not matched by any competitor with over 27,000.
- ***The eBay Community:*** eBay wants their customers to feel like they are a part of a community. This community feel gives customers the sense that they are part of something and cared about. By showing the customers that their feedback, opinions, and feelings are important, eBay has gained tremendous ground with their customers.
- ***The eBay Website:*** eBay has created an auction and retail website that is unique and interesting. This creative site sets them apart from their competitors. The site is set up with many facets that reach a broad span of visiting buyers and sellers. The site is also entertaining and easy-to-use making it very appealing for online shopping and trading.
- ***The eBay Brand Name:*** eBay was the creator of the online auction industry. When customers think of online buying they immediately think of eBay. This has given them a competitive advantage that sets them apart from other online auctions.
- ***eBay's Global Reach:*** The global reach of eBay is not achieved by any other online auction site. For large corporations, international selling and buying is done everyday. Even for an individual buyer or seller, having the option of searching throughout 150 countries with a span of 94.9 million users is very appealing.

Why the Differentiation Strategy Works Best for eBay

The users of eBay have different preferences and need depending on why and how they use the service. eBay has determined a way to satisfy their customers whether they are large businesses or individuals. By offering a wide variety of products, globally expanding, and creating a community for all customers to join eBay has created a distinctive value unmatched by its rivals.

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Analysis of eBay's Business Model

eBay's business model was based on creating and maintaining a person-to-person trading community. This model allows buyers to easily search for what they want to purchase. It also allows sellers to post their items minutes after they have been registered. There are a few specific elements of eBay's business model that are recognized as key to its success. They are:

- Being the largest online trading forum with a critical mass of buyers, sellers, and items listed for sale.
- Its compelling and entertaining environment, which had strong values, established rules and procedures that facilitated communication between buyers and sellers.
- Establishing programs such as Safeharbor to aid in disputes and to punish users who violate eBay.
- Cost effective and convenient trading.
- Strong community affinity.
- An intuitive user interface that was easy to understand, arranged by topics, and fully automated.

By implementing their business model, eBay employed three main tactics. First, they looked to build strategic partnerships. Second, they looked for customer feedback to constantly make changes and improvements. Finally, they monitored its internal and external environments for possible opportunities. By doing all of these things, eBay was able to adapt to the changing ways and keep their customers satisfied.

Source: *Scribd.com*

6.1 UNIT OBJECTIVES

After going through this unit, you will be able to:

- Craft a good strategy
- Describe the institutionalization of strategy
- Know the essentials of creating a worker friendly culture and communicating the pyramid of purpose concisely
- Define corporate governance
- Know the Simon's seven strategy questions for strategy implementation
- Discuss the important aspects like resource allocation, leadership and corporate culture.
- Describe the strategic control and evaluation techniques.

6.2 GOOD CRAFTING OF THE STRATEGY

What is a strategy? It is the pattern of organizational moves and managerial approaches used to achieve the organizational mission. Objectives are the "ends" and strategy is the "means" of achieving them. Strategy is a management tool for achieving strategic targets. What is important to take note of, is forming a strategy that starts with the analysis of the organization's internal and external situation. Armed with an understanding of both environments, managers can better devise a strategy to achieve targeted strategic and financial results. An organization's strategy is always a blend of prior moves and approaches already in place and new actions being mapped out. "An organization's strategy that is mostly new for most of the times, signals erratic decisionmaking and weak strategizing on the part of the managers" *(Thompson and Strickland 1992)*. Quantum changes in strategy can be expected occasionally, especially in crisis situations but they cannot be made too often without creating undue organizational confusion and disrupting performance. *(Journal of Comprehensive Research, Volume 5, Page 17)*

6.3 INSTITUTIONALIZING THE STRATEGY

To emphasize systems, style, staff, skills, and super-ordinate goals, we need to look at how strategy is institutionalized. An institution is a collection of values, norms, roles and groups being developed to accomplish a certain goal. The institution of education, for example, developed to prepare children to be productive members of society. To institutionalize a business strategy, business leaders must also develop a system of values, norms, roles and groups that will support the accomplishment of strategic goals. So, the strategy is institutionalized, if it is connected to the culture, the quality system, and the other driving forces in the organization.

We have seen that the drive toward TQM can be institutionalized. Another aspect of organizational life that is also undergoing increasing institutionalized is an emphasis on ethics development. Both shift organizational attention from detection and control to coordination and strategic impact. The ultimate outcome of this shift in focus is an enhanced quality of work environment for employees and increased quality of products and services for customers.

The role of the CEO

Because chief executive officers (CEOs) spend most of their time developing and guiding strategy, their personal goals and values inevitably shape organizational strategy. For examples, Walt Disney valued family entertainment and conceived the idea of a "magical little park" that would amuse and educate both children and their parents. His vision resulted in Disneyland, which was opened in 1955. Although Disney died in 1966, his values and vision had continued to shape his company, as

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evidenced by the completion of his plans for Disney World (opened in 1971) and Epcot Center (opened in 1982). Usually however a change in CEO is associated with a change in strategy. Although current Disney CEO, Michael Eisner has continued to develop the theme parks, he has moved away from Walt Disney's strategy of offering mainly G-rated films for children to create Touchstone Pictures, which offers PG and PG-13 films that appeal to wider audiences.

Their role in strategy formulation makes CEOs especially important to strategy implementation. First, they interpret strategy, acting as final judges when managers disagree on implementation. Second, CEOs enact through their words and actions, the seriousness of an organization's commitment to a strategy. Third, CEOs motivate, providing intangible incentives beyond pay or bonuses. By appealing to members' values, beliefs, and loyalties, CEOs can mobilize support for a strategy.

6.4 CRAFTING A WORKER-FRIENDLY CULTURE

Strategists should strive hard to preserve, emphasize, and build upon aspects of an existing culture that support proposed new strategies. Aspects of an existing culture that are antagonistic to a proposed strategy should be identified and changed. Substantial research indicates that the new strategies are often market-driven and dictated by competitive forces. For this reason, changing a firm's culture to fit a new strategy is usually more effective than changing a strategy to fit an existing culture. Numerous techniques are available to alter an organization's culture, including recruitment, training, transfer, and promotion, restructure of an organization's design, role modeling, and positive reinforcement.

Jack Duncan described triangulation as an effective, multi-method technique for studying and altering a firm's culture. Triangulation includes the combined use of obtrusive observation, self-administered questionnaires, and personal interviews to determine the nature of a firm's culture. The process of triangulation reveals needed changes in a firm's culture that could benefit strategy.

Schein indicated that the following elements are most useful in linking culture to the strategy:

- Formal statements of organizational philosophy, charters, creeds, materials used for recruitment and selection, and socialization,
- Designing of physical spaces, facades and buildings,
- Deliberate role modeling, teaching, and coaching by leaders,
- Explicit reward and status system, promotion criteria,
- Stories, legends, myths, and parables about key people and events,
- What leaders pay attention to, measure, and control?
- Leader's reactions to critical incidents and organizational crises,
- How the organization is designed and structured?

- Organizational systems and procedures,
- Criteria used for recruitment, selection, promotion, leveling-off, retirement "excommunication" of people.

In the personal and religious side of life, the impact of loss and change is easy to see. Memories of loss and change often haunt individuals and organizations for years. Ibsen wrote, "Rob the average man of his life illusion and you rob him of his happiness at the same stroke". When attachments to a culture are severed in an organization's attempt to change direction, employees and managers often experience deep feelings of grief. This phenomenon commonly occurs when external conditions dictate the need for a new strategy. Managers and employees often struggle to find meaning in a situation changed many years before. Some people find comfort in memories; others find solace in the present. Weak linkages between strategic management and organizational culture can jeopardize performance and success. Deal and Kennedy emphasized making strategic changes in an organization always threatens a culture:

"People form strong attachments to heroes, legends, the rituals of daily life, the hoopla of extravaganza and ceremonies, and all the symbols of the workplace. Change strips relationships and leaves employees confused, insecure, and often angry. Unless something can be done to provide support for transitions from old to new, the force of a culture can neutralize and emasculate strategy changes".

6.5 COMMUNICATING THE PYRAMID OF PURPOSE CONCISELY

The Strategic plan devised by the organization proposes the manner in which the strategies could be put into action. Strategies, by themselves, do not lead to action. There is, in a sense, a statement of intent: implementation tasks are meant to realise the intent. Strategies, therefore, have to be activated through implementation.

Strategies lead to several plans and each plan leads to several programme. Each programme results in several projects. Projects are supported by funds through the budgets. The administrative mechanisms of polices, procedures, rules and regulations support the working of the organization while it implements the projects, programmes, plans, and strategies. In this manner, strategy sits at the top of a pyramid that has projects at its base as shown in figure 6.1.

First of all, strategies should lead to plans. For instance, if stability strategies have been formulated, they may lead to the formulation of various plans. One such plan could be a modernisation plan. If expansion strategies have been adopted, various types of expansion plans will have to be formulated. An expansion plan could be designed to set up an additional plant to manufacture the same products. Similarly, diversification strategies could lead to new product development plans.

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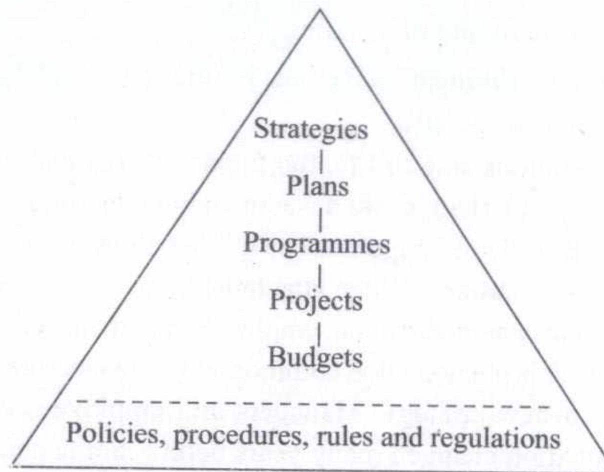


Fig. 6.1: The pyramid of strategy implementation

Plans result in different kinds of programmes. A programme is a broad term which includes goals, policies, procedures, rules and steps to be taken in implementing a plan into action. Programmes are usually supported by funds allocated for plan implementation. An example of a programme is an R & D programme for the development of a new product.

Programmes lead to the formulation of projects. A project is a highly specific programme for which the time schedule and costs are predetermined. It requires the allocation of funds based on capital budgeting by organizations. Thus, R & D programmes may consists of several projects, each of which is intended to achieve specific and limited objectives, requires separate allocation of funds, and is to be completed within a set time schedule.

Project creates the needed infrastructure for the day-to-day operations in an organization. They may be used for setting up new or additional plans, modernising the existing facilities, installation of newer systems, and for several other activities that are needed for the implementation strategies. A note of caution here: In practice, companies may not make such a fine distinction among plans, programmes, and projects as we have done here. But as students of management, we have to understand the difference and learn to distinguish between the different terms used in strategic management.

Check Your Progress

1. What is a strategy?
2. Define Programme.
3. What are the key essentials of crafting a worker friendly strategy?

6.6 CORPORATE GOVERNANCE

Corporate Governance refers to the way a corporation is governed. It is the technique by which companies are directed and managed. It means running the business as per the stakeholders' desires. It is actually conducted by the Board of Directors and the concerned committees for the company's stakeholder's benefit. It is all about balancing individual and societal goals, as well as, economic and social goals.

Corporate Governance is the interaction between various participants (shareholders, the Board of Directors, and company's management) in shaping corporation's performance and the way it is proceeding towards. The relationship between the owners and the managers in an organization must be healthy and there should be no conflict between the two. The owners must see that individual's actual performance is according to the standard performance. These dimensions of corporate governance should not be overlooked.

Corporate Governance deals with the manner in which the providers of finance guarantee themselves of getting a fair return on their investment. Corporate Governance clearly distinguishes between the owners and the managers. The managers are the deciding authority. In modern corporations, the functions/ tasks of owners and managers should be clearly defined, rather than harmonizing.

Corporate Governance deals with determining ways to take effective strategic decisions. It gives ultimate authority and complete responsibility to the Board of Directors. In today's market- oriented economy, the need for corporate governance arises. Also, efficiency as well as globalization is significant factors urging corporate governance. Corporate Governance is essential to develop added value to the stakeholders.

Corporate Governance ensures transparency which ensures strong and balanced economic development. This also ensures that the interests of all shareholders (majority as well as minority shareholders) are safeguarded. It ensures that all shareholders fully exercise their rights and that the organization fully recognizes their rights.

Corporate Governance has a broad scope which includes both social and institutional aspects. Corporate Governance encourages a trustworthy, moral, as well as ethical environment.

6.7 SIMON'S SEVEN STRATEGY QUESTIONS FOR BETTER IMPLEMENTATION

Business leaders can't develop and execute effective strategy without first gathering the right information, says Harvard Business School professor Robert Simons. In his new book – *Seven Strategy Questions: A Simple Approach for Better Execution*, Simons explains how managers can identify holes in their planning processes and make smart choices. Here's an excerpt outlining the seven questions every manager should ask.

1. **Who Is Your Primary Customer?**

The first imperative—and the heart of every successful strategy implementation—is allocating resources to customers. Continuously competing demands for resources—from business units, support functions and external partners—require a method for judging whether the allocation choices you have made are optimal.

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Therefore, the most critical strategic decision for any business is determining to whom you are trying to serve. Clearly identifying your primary customer will allow you to devote all possible resources to meeting their needs and minimize resources devoted to everything else. This is the path to competitive success.

It's easy to try to duck the tough choice implied by the adjective primary by responding that you have more than one type of customer. This answer is a guaranteed recipe for underperformance: the competitor that has clarity about its primary customer and devotes maximum resources to meet their specific needs will beat you every time.

2. How Do Your Core Values Prioritize Shareholders, Employees, and Customers?

Along with identifying a primary customer, you must also define your core values in a way that ranks the priority of shareholders, employees, and customers. Value statements that are the lists the of aspirational behaviours aren't good enough. Real core values indicate whose interest comes first when faced with difficult trade-offs.

Prioritizing core values should be the second pillar of your business strategy. For some companies, shareholders are considered at first. For others, it may be employees. In other companies, it may be customers. There is no right or wrong, but choice is necessary. To illustrate this point, I'll contrast Merck's $20 billion decision to pull Vioxx from the market with Pfizer's decision to continue marketing Celebrex.

3. What Critical Performance Variables Are You Tracking?

Once you're confident that the foundation of your implementation is sound—you've allocated resources correctly and provided guidance for tough decisions—it's time to get everyone who works for you focused on the job at hand.

Tracking performance goals—the third implementation imperative—requires you to set the right goals, assign accountability, and monitor performance. It's easy to fail this imperative by focusing on the wrong performance indicators or monitoring scorecards that have an overload of irrelevant measures. Underperformance is the result.

It's your job to ensure that your managers are tracking the right things by signalling out those variables that spell the difference between strategic success and failure. Like the preceding two questions, the focus in this question is again on an adjective, this time the word 'critical'. I will show you a simple but counter-intuitive technique that you can use to be sure that you're tracking the right things, and I will describe how companies such as Nordstrom and Apple illustrate some unorthodox performance measurement choices that provide the pathway to superior results.

4. What Strategic Boundaries Have You Set?

Every strategy brings with it the risk that an individual's actions will pull the business off. Here again, it's easy to fail to inoculate the business against this risk. As we will see, the trick is in setting clear boundaries.

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Controlling strategic risk is the fourth implementation imperative. Strategic boundaries—which are always stated in the negative—ensure that the entrepreneurial initiative of your employees aligns with the desired direction of the business. Strategic boundaries can also protect you from the types of errant actions that destroyed Enron and brought financial service firms such as Fannie Mae and Lehman Brothers to their knees.

5. How Are You Generating Creative Tension?

Once you're satisfied that you are tracking the right performance goals and controlling strategic risks, it's time to turn to the fifth implementation–imperative: spurring innovation. This imperative is woven into the fabric of every healthy organization, and we all know that the companies that the fail to innovate will eventually die. No company is immune.

But sustaining ongoing innovation in organizations is notoriously difficult. People fall into comfortable habits, sticking with what they know and rejecting things that cause them to change their ways.

To overcome such inertia, you must push people out of their comfort zones and spur them to innovate. I will provide a menu of techniques that you can use to generate creative tension to ensure that everyone is thinking and acting like a winning competitor.

6. How Committed Are Your Employees to Helping Each Other?

For most companies, it's critically important to build norms so that people will help each other succeed—especially when you're asking people to innovate. But there are some exceptions. Some organizations can, and should, be built on self-interest, with every man or woman working for him- or herself.

I suspect that the choice between commitment to help others and self-interest is deeply ingrained in your organization, yet has never been discussed. But if you haven't addressed this choice explicitly—and worked to make it happen—you have increased the potential that your strategy implementation will fail.

Building commitment is the sixth implementation imperative. I will offer a menu of techniques to foster the commitment to achieve shared goals. Or, if rewarding self-interest is more appropriate for your business, I will explore alternative approaches you should employ.

7. What Strategic Uncertainties Keep You Awake at Night?

No matter how good your current strategy is, it won't work forever. There will be booms and busts, customer preferences will change, competitors will introduce new products, and disruptive new technologies will emerge in unexpected places.

This brings us to the final implementation imperative: adapting to change. Adapting is critical to survival, but it's extremely difficult to do. With change constantly surrounding us, employees often do not know where to look or how to respond.

6.8 RESOURCE ALLOCATION, PROJECTS AND PROCEDURAL ISSUES

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Strategists have the power to decide which divisions, departments, or SBUs are to receive how much money, which facilities, and which executives. This is what we mean by resource allocation.

The resource allocation decisions are very similar in that they set the operative strategy for the firm. Assume, for example, that resources are allocated to existing units on some formula basis (e.g., 10 per cent above a last year's budget). The implicit operative strategy is space expansion. If the official strategy is expansion in some lines of business with stability in others, then greater resource flows to the areas targeted for expansion are necessary to give force to the strategy. The formula approach (such as 10 per cent above last year's budget for all lines of business) would not reinforce such a strategy. What is important to understand is that once the strategic choice is made, resources must follow the strategy, or we haven't put our "money where out mouth is", SBUs and lower managers are smart. If a firm's strategists describe a strategy in words but do not shift money and executive talent and other resources to support it, the strategy will be considered a paper strategy. As with objectives, there can be a difference between "official" and "actual" strategy. So resource allocation decisions about how much to invest in which areas of the business reinforce strategy and commit the organization to its chosen strategy.

Let's consider how resource allocation is important to several strategic options. If new product development is seen as the key to an active offensive strategy, more funds and personnel will be needed in research and development, with the possibility of longer-term capital expenditures for a new plant or new equipment. If the strategy calls for expansion in new markets, greater flows of funds for advertising, sales personnel, and/or market research will be required. If retrenchment is under way, resource allocation is of particular significance. Care must be taken to protect the units which provide long-term competitive advantages. Unfortunately, the "easy way out" is often used –everyone is cut back equally, or resource flows are reduced for the units which have a longer-term payout but are short-term users of resources without commensurate revenue generation. The usual example is to cut R & D or maintenance-the every places where long-term developments may be most critical for future competitive advantage. Thus shortsighted resource allocation decisions may be preferred at the expense of the ability to pursue a long-term strategy.

Of course, resource allocation decisions are linked to objectives through the strategies being implemented. Decisions about dividend policies, for instance, are important in relation to objectives and the long-term ability to attract the sources of capital. Thus how to share expected profits among investors, management, the labour and whether to reinvest in the business are important resource allocation choices with long-term strategy implications. External parties play a major role. For instance, government regulations may require a firm to invest large amounts of capital in "nonproductive"

assets such as pollution-control equipment. Influential stockholders may force the firm to make greater dividend payouts. Thus the strategic agenda is partially set by the factors influencing the setting of objectives, since they will limit the resources available for implementing strategy as expressed in the allocation decisions. Finally, resource allocation is linked to the development of competitive advantage.

It is presumed that those approaches were considered during strategy formulation. The key here is to make sure that preferential distribution of capital is allocated to the most critical units-the units where the strategy is directed at creating competitive advantages.

6.9 ORGANIZATION STRUCTURE AND SYSTEMS IN STRATEGY MANAGEMENT

Changes in strategy often require changes in the way an organization is structured for two major reasons. First, structure largely dictates how objectives and policies will be established. For example, objectives and policies established under a geographic organizational structure are couched of geographic terms. Objectives and policies are stated largely in terms of products of an organization whose structure is based on product.

The structural format for developing objectives and policies can significantly impact all other strategy-implementation activities. The second major reason why changes in strategy often require changes in structure is that the structure dictates how resources will be allocated. If an organization has a structure based on customer groups, then resources will be allocated in that manner. Similarly, if an organization's structure is set up along functional business lines, then the resources are allocated by functional areas. Unless new or revised strategies place emphasis in the same areas as old strategies, structural reorientation commonly becomes a part of strategy implementation.

Changes in strategy lead to changes in organizational structure. Structure should be designed to facilitate the strategic pursuit of a firm and, therefore, follows strategy. Without a strategy or reasons for being (mission), designing an effective structure is difficult. Chandler found a particular structure sequence to be often repeated as organizations grow and change strategy over time; this sequence is depicted in Figure 6.2. There is no one optimal organizational design or structure for a given strategy or type of organization. What is appropriate for one organization may not be appropriate for a similar firm, although successful firms in a specified industry do tend to organize themselves in a similar way. For example, consumer good companies tend to emulate the divisional structure-by-product form of organization. Small firms tend to be functionally structured (centralized). Medium-size firms tend to be divisionally structured (decentralized). Large firms tend to use an SBU (strategic business unit) or matrix structure.

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Chandler's Strategy-Structure Relationship

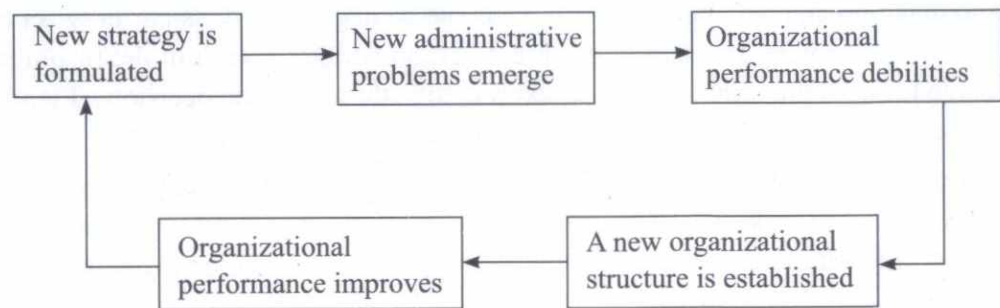


Fig. 6.2: Chandler's strategy structure relationship

As organizations grow, their structures generally change from simple to complex as a result of concatenation, or the linking together of several basic strategies. Numerous external and internal forces affect an organization; no firm could change its structure in response to each of these forces, because to do so would lead to chaos. However, when a firm changes its strategy, the existing organizational structure becomes ineffective. Symptoms of an ineffective organizational structure include too many levels of management, too many meetings attended by too many people, too much attention being directed toward solving interdepartmental conflicts, too large a span of control, and so many unachieved objectives. Changes in structure can facilitate strategy implementation efforts, but changes in structure should not be expected to make a bad strategy good, to make bad managers good, or to sell bad products.

Structure undeniably can and does influence strategy. Strategies formulated must be workable, so if a certain new strategy required massive structural changes, it would not be an attractive choice. In this way, the structure can shape the choice of strategies. But a more important concern is determining what types of structural changes is needed. Implement new strategies and how these changes can best be accomplished. We examine this issue by focusing on seven basic types of organizational structure: functional, divisional by geographic area, divisional by product, divisional by customer, divisional by process, strategic business unit (SBU), and matrix.

6.10 LEADERSHIP AND CORPORATE CULTURE

The role of appropriate leadership in strategic success is highly significant. It has repeatedly been observed that the leadership plays a critical role in the success and failure of an enterprise and it has been considered one of the most important elements affecting organizational performance. For the manager, leadership is the focus of activity through which the goals and objectives of the organization are accomplished. While dealing with the role of strategists, we learnt about the roles that different strategist play in strategic management. In particular, the role of chief executives as organizational leaders was discussed with a view to highlight the importance that is accorded to them since they are the most important of all strategists. Here, we

discuss the leadership role that is assigned to strategists in general. We start with a review of the leadership theories and what lessons can be drawn from them for the purpose of strategy implementation.

Leadership has been studied and researched for a number of years, resulting in numerous theories and models on universally accepted theoretical framework has been developed. However, enough is already known to be able to understand the various factors that affect the content and process of leadership. Figure 6.3 presents an overview of leaderships theory through the different evolutionary eras and the emphasis placed on it in each era. It should, however, be noted that the eras are not chronological but have been set in terms of the similarity of approach adopted by several theorists. Thus, an era represents a group of leadership theories all of which adopted a similar approach. King points out that the future development of leadership theory may be based on an integrated approach.

Albert S. King traces the historical development of leadership theories and identifies nine evolutionary eras, each focussing on a specific theme of leadership.	
Era	**Focus on**
Personality	Traits and qualities, and great personalities
Influence	Relationship between individuals
Behaviour	Actions on leaders
Situation	Situation in which the leader operates
Contingency	Dependence on behaviour, personality influence exerted by the leader on subordinates, and situation
Transactional	Role-differentiation and social interaction between the leader and the subordinates
Anti-leadership	Absence of a real concept of leadership
Culture	Culture of the entire organization
Transformational	Use of influence to create intrinsic motivation

Fig. 6.3: Theory and practice of leadership

The tenth era, which King termed as the integrative era, may probably focus on an integration of the different approaches. The evolutionary eras, as classified by King, bring into clear focus the changing emphasis of different theories of leadership. A greater understanding of the phenomenon of leadership may come through the integration of the different approaches in future.

Sziglayi and Wallace have proposed an integrative model of leadership based on three different theoretical approaches of leadership: trait (or personality), behavioural, and situational theories. Their integrative model of leadership includes four factors on the basis of which behavioural scientists and practicing managers can attempt to understand the phenomenon of leadership. These four factors are: the leader

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(individual characteristics, leadership style, dimension and reinforcing power); the subordinate (individual characteristics, and perception), the situation (nature of task, nature of group, organizational factors, sources of influence other than the leader), and the performance outcomes.

Several conclusions can be drawn from theory regarding the manner in which leadership could be implemented by strategists. On the basis of its present state of knowledge, it can be said that the leader must:

- develop new qualities to perform effectively.
- be a visionary, willing to take risks, and be highly adaptable to change.
- exemplify the values, goals, and culture of the organization, and be aware of the environmental factors affecting the organization.
- pay attention to the strategic thinking and intellectual activities.
- adopt a collective view of leadership in which the leaders influence is dispersed across all levels of the organization.
- lead by empowering others and place an increasing emphasis on statesmanship.
- adopt a new perspective on power to build subordinates skills and confidence to make them agents of change.
- create leadership at lower levels and facilitate the transformation of followers into leaders.
- delegate the authority and place emphasis on innovation.

6.10.1 Corporate Culture

The phenomenon which often distinguishes good organizations from the bad ones could be summed up as corporate culture. The well-managed organizations apparently have distinctive cultures that are, in some way, responsible for their ability to successfully implement strategies. It has been clearly demonstrated that every corporation has a culture (which often includes several subcultures) that exerts powerful influences on the behaviour of managers. We shall see below what corporate culture is, how it influences corporate life, and how it can be managed so that it becomes strategy supportive. Organizational (or corporate) culture is the set of important assumptions-often unstated that the members of an organization share in common. There are two major assumptions in common: beliefs and values. Beliefs are the assumptions about reality and are derived and reinforced by experience. Values are the assumptions about ideals that are derived and worth striving for. When beliefs and values are shared in an organization, they create a corporate culture.

The manifestation of corporate culture in an organization is evident in:

- shared things (e.g. the way people dress)
- shared sayings (e.g. let's get down to work.)
- shared actions (e.g. a service-oriented approach)
- shared feelings (e.g. hard work is not rewarded here.)

These shared assumptions can help to decipher the composition of the corporate culture of any organization.

The strategists have four approaches to create a strategy supportive culture:

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1. *To ignore the corporate culture.* The first approach may be followed when it is nearly impossible to change the culture. This is advisable because it is really difficult to change a nebulous phenomenon such as corporate culture. Besides, cultural changes, when enforced for a short duration, may be traumatic for members of an organization.
2. *To adapt the strategy implementation to suit corporate culture.* It is easier to change the implementation to suit the requirements of corporate culture. This is possible because the behavioural aspects of implementation offer a range of flexible alternatives to strategists in terms of structure, systems of corporate culture. However, each situation in the organization would call for an innovative solution and would test the capabilities of managers as strategists.
3. *To change the corporate culture to suit strategic requirements.* As said earlier, it is extremely difficult to change the corporate culture. But in some cases, it may be imperative. For instance, the post-liberalisation spate of takeovers and acquisitions in the Indian industry led to a situation where many erstwhile multinational subsidiaries were taken over by family business groups. This situation led to a process often prolonged and painful of cultural transition. But such a transition may be brought about by a careful understanding of existing culture, making strategic tasks explicit, assessing risks of cultural change, enhancing managerial capability to imbibe changes, and, most importantly, exhibiting a strong, assertive leadership.
4. *To change the strategy to fit the corporate culture.* Rather than changing culture to suit strategy, it is better and more economical to consider the cultural dimension while formulating strategy in the first place. One of the important factors is commitment to past strategic actions which should take care that strategic changes are not drastic but incremental, allowing the cultural ripple effects to settle down to create a more conducive environment for strategy implementation. However, if an impregnable cultural barrier is faced after strategy implementation, it may be better to abandon the strategy or use a combination of the above three approaches.

It is important to realize that an understanding of the process of policy-making in an organization cannot be achieved without paying attention to the issue of organizational culture. It is equally important when analysing the strategic position of an organization to assess how this culture has influenced the development of the organization and the strategies it has pursued.

6.11 STRATEGIC CONTROL AND OPERATIONAL CONTROL

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The major aspects of control are related to operational and derived functional plans to implement strategy, integration of functional plans, organizational systems and the techniques of strategic evaluation. Strategic control, the process of evaluating strategy, is practiced both after the strategy is formulated and implemented. The organization's strategists evaluate strategy once it has been formulated to ascertain whether it is appropriate to mission accomplishment and once again it has been implemented to determine, if the strategy is accomplishing its objectives. Operational control is the process of ascertaining whether the individual and work group role behaviours (performance) are congruent with the individual and work group role prescriptions.

6.11.1 Strategic Control

Control of strategy can be characterized as a form of steering control. Ordinarily, a significant time span occurs between initial implementation of a strategy and the achievements of its intended results. During that time, numerous projects are undertaken, investments are made, and the actions are undertaken to implement the new strategy. Also during that time, both the environmental situation and the firm's internal situation are developing and evolving. Strategic controls are necessary to steer the firm through these events. They must provide the basis for correcting the actions and directions of the firm in implementing its strategy as developments and changes in its environmental and internal situations take place.

The four basic types of strategic controls are:

1. Premise control
2. Implementation control
3. Strategic surveillance
4. Special alert control.

Premise Control

Every strategy is based on assumed or predicted conditions. These assumptions or predictions are planning premises; a firm's strategy is designed around these predicted conditions. Premise control is designed to check systematically and continuously whether or not the premises set during the planning and implementation process are still valid. If a vital premise is no longer valid, then the strategy may have to be changed. The sooner an invalid premise can be recognized and revised, the better the chances that an acceptable shift in the strategy can be devised.

Implementation Control

The action phase of strategic management is located in the series of steps, programmes, investments, and moves undertaken over a period of time to implement the strategy.

Special programs are undertaken. Functional areas initiate several strategy-related activities. Key people are added or reassigned. Resources are mobilized. In other words, managers convert broad strategic plans into concrete actions and results for specific units and individuals as they go about implementing strategy. And these actions take place incrementally over an extended period of time designed ultimately to enact the planned strategy and achieve long-term objectives.

Strategic Surveillance

By their nature, premise control and implementation control are focused control. The third type of strategic control, strategic surveillance, is designed to monitor a broad range of events inside and outside the company that are likely to threaten the course or the firm's strategy. The basic idea behind strategic surveillance is that some form of general monitoring of multiple information sources should be encouraged, with the specific intent being the opportunity to uncover important yet unanticipated information.

Special Alert Control

Another type of strategic control, really a subset of the other three, is special alert control. A special alert control is needed to thoroughly, and often rapidly, reconsider the firm's basic strategy based on a sudden, unexpected event. A political coup in the Middle East, an outside firm suddenly acquiring a leading competitor, an unexpected product difficulty like Tylenol's experience with poisoned capsules-all of these represent sudden changes that can drastically alter the company's strategy.

6.11.2 Operational Control

Operational control systems are designed to ensure that day-to-day actions are consistent with established plans and objectives. Operational control is concerned with individual and group role performance as compared with the individual and group role prescriptions required by organizational plans. Such control systems are normally concerned with the past (unless feed forward systems are being utilized). Operational control focuses on the events in a recent period. Operations control systems are derived from the requirements of the management control system. Specific standards for performance are derived from the objectives of the operating plans, which are based on intermediate plans, which are based on strategy. Performance is compared against the objectives at the individual and group levels. Corrective or preventive action is taken where performance does not meet standards. This action may involve training, motivation, leadership, discipline, or termination.

6.12 ORGANIZATIONAL SYSTEM AND TECHNIQUES OF STRATEGIC EVALUATION

Strategy Evaluation is as significant as strategy formulation because it throws light on the efficiency and effectiveness of the comprehensive plans in achieving the desired

results. The managers can also assess the appropriateness of the current strategy in today's dynamic world with socio-economic, political and technological innovations. Strategic Evaluation is the final phase of strategic management.

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The significance of strategy evaluation lies in its capacity to co-ordinate the task performed by managers, groups, departments, etc. through control of performance. Strategic Evaluation is significant because of various factors such as - developing inputs for new strategic planning, the urge for feedback, appraisal and reward, development of the strategic management process, judging the validity of strategic choice, etc.

There are certain basics which should be followed for making the strategic evaluation effective. These characteristics are as follows:

- The activities of evaluation must be economical.
- The information should neither be too much nor too little.
- The control should neither be too much nor too less. It should be balanced.
- The evaluation activities should relate to the firm's objectives.
- It should be designed in such a manner so that a true picture is portrayed.

There can be many more such requirements. Large organizations require a more elaborate system than the smaller ones.

6.12.1 Evaluation Techniques for Strategic Control

The essence of strategic control is to continually assess the changing environment to uncover the events that may significantly affect the course of an organization's strategy. Techniques for strategic control could be classified into two groups on the basis of the type of environment faced by the organizations. The oraganizations that operate in a relatively stable environment may use strategic momentum control, while those which face a relatively turbulent environment may find strategic leap control more appropriate.

1. **Strategic momentum control:** These types of evaluation techniques are aimed at assuring that the assumptions on whose basic strategies were formulated are still valid, and finding out what needs to be done in order to allow the organization to maintain its existing strategic momentum. There are three techniques which could be used to achieve these aims: responsibility control centres, underlying success factors, and generic strategies.
    - **Responsibility control** centres form the core of management control systems and are of four types: revenue, expense, profit, and investment centres. Each of these centres is designed on the basis of the measurement of inputs and outputs. The study and application of responsibility centres is done under the discipline of management control systems.
    - **The underlying success factors** enable organizations to focus on the critical success factor (CSFs) in order to examine the factors that contribute to the

success of strategies. By managing on the basis of the CSFs, the strategists can continually evaluate the strategies to assess whether or not these strategies are helping the oraganization to achieve its objectives.

- **The generic strategies** approach to strategic control is based on the assumption that the strategies adopted by a firm similar to another firm are comparable. Based on such a comparison, a firm can study why and how other firms are implementing strategies and assess whether or not its own strategy is following a similar path. In this context, the concept of strategic group is also relevant. A strategic group is a group or firms that adopt similar strategies with similar resources. Firms within a strategic group, often within the same industry, and sometimes in other industries too, tend to adopt similar strategies.

2. **Strategic leap control:** Where the environment is relatively unstable, organizations are required to make strategic leaps in order to make significant changes. Strategic leap control can assist such organizations by helping to define the new strategic requirements and to cope with emerging environmental realities. There are four techniques or evaluation used to exercise strategic leap control: strategic issue management, strategic field analysis, systems modeling and scenarios.

   - **Strategic issue management** is aimed at identifying one or more strategic issues and assessing their impact on the oraganization. A strategic issue is a forthcoming development, either inside or the organization, which is likely to have an important impact on the ability of the enterprise to meet its objectives. By managing on the basis of strategic issues, the strategists can avoid being overtaken by surprising environmental changes and design contingency plans to shift the strategies whenever required.
   - **Strategic field analysis** is a way of examining the nature and extent of synergies that exist or are lacking between the components of an oraganization. Whenever synergies exist, the strategists can assess the ability of the firm to take advantage of those. Alternativly, the strategists can evaluate the firm's ability to generate synergies where they do not exist.
   - **A system modeling** is based on computer-based models that simulate the essential features of the organization and its environment. Through systems modeling, organizations may exercise pre-action control by assessing the impact of the environment on organizations because of the adoption of a particular strategy.
   - **Scenarios** are the perceptions about the likely environment a firm would face in the future. Its use could be extended to evaluation by enabling organizations to focus strategies on the basis of forthcoming developments in the environment.

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Several of the above techniques for strategic control with the possible exception of responsibility centres-are of a relatively recent origin. The development of these techniques is an evidence of the expanding body of knowledge in strategic management. As the use and application of strategic management gains approval, it is quite likely that organizations would start using such techniques. Operational control, however, uses more familiar techniques which have traditionally been used by strategists. In the next part of this section, we look at techniques for operational control.

6.12.2 Evaluation Techniques for Operational Control

The classification of evaluation techniques in the three parts: internal analysis, comparative analysis, and comprehensive analysis.

1. **Internal analysis***:* Internal analysis, which consists of value-chain analysis, quantitative (financial and non-financial) analysis, and qualitative analysis, deals with the identification of the strengths and weaknesses of a firm in absolute terms.
   - Value-chain analysis focuses on a set of inter-related activities performed for the purpose of operational evaluation lies in its ability to segregate the total tasks of a firm into identifiable activities which can then be evaluated for effectiveness.
   - Quantitative analysis takes up the financial parameters and the non-financial quantitative parameters, such as, physical units or time, in order to assess the performance. The obvious benefit of using quantitative factors (either financial or physical parameters) is the ease of evaluation and the verifiability of the assessment done. These are probably the most-used methods for evaluation for operational control. Among the scores of financial techniques described in all standard texts in the area of finance are traditional techniques, such as, ratio analysis, or newer techniques, such as, economic value added (EVA) and its variations, and the activity based costing (ABC). These are the proven methods so far as their efficacy for evaluating operational effectiveness is concerned. Apart from the financial quantitative techniques, there are several non-financial quantitative techniques available for the evaluation for operational control, such as: computation of absenteeism, market ranking, rate of advertising recall, total cycle time of production, service call rate, or number of patents registered per period. Many more techniques can be evolved by firms to suit their specific requirements.
   - Qualitative analysis supplements the quantitative analysis by including those aspects which are not feasible to measure on the basis of figures and numbers. The methods that could be used for qualitative analysis are based on intuition, judgement, and informed opinion. Techniques like surveys and experimentation can be used for the evaluation of performance for exercising operational control.

2. **Comparative analysis:** This consists of historical analysis, industry norms, and benchmarking. It compares the performance of a firm with its own past performance, or with other firms.
   - **Historical analysis** is a frequently used method for comparing the performance of a firm over a given period of time. This method has the added benefit of enabling a firm to note how the performance has taken place over a period of time and to analyse the trend or pattern. Such an analysis can offer the firm a better perception of its performance as compared to an absolute assessment.
   - **Industry norms** are a comparative method for analysing performance that has the advantage of making a firm competitive in comparison to its peers in the same industry. Being a comparative assessment, evaluation on the basis of industry norms enables a firm to bring its performance at least up to the level of other firms and then attempts to surpass it.
   - **Benchmarking** is a comparative method where a firm finds practices in an area and then attempts to bring its own performance in that area in line with the best practice. Best practices are the benchmarks that should be adopted by a firm as the standards to exercise operational control. Through this method, the performance can be evaluated continually till it reaches the best practice level. In order to excel, a firm shall have to exceed the benchmarks. In this manner, benchmarking offers firms a tangible method to evaluate the performance.
3. **Comprehensive analysis:** This includes the balanced scorecard and key factor rating. This analysis adopts a total approach rather than focussing on one area of activity, or a function or department.
   - **Balanced scorecard method** is based on the identification of four key performance measures of customer perspective, internal business perspective, innovation and learning perspective, and the financial perspective. This method is a balanced approach to performance measurement as a range of parameters is taken into account for evaluation.
   - **Key factor rating** is a method that takes into account the key factors in several areas and then sets out to evaluate performance on the basis of these. This is quite a comprehensive method as it takes a wholistic view of the performance areas in an organization.

6.13 EVALUATING DEVIATION

Operating control system requires the establishment of performance standards. In addition, progress must be monitored and deviations from standards evaluated as the strategy is implemented. Timely information must be obtained so that the deviations

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can be identified, the underlying causes determined, and the actions taken to correct or exploit them.

While measuring the actual performance and comparing it with the standard performance, there may be variances which must be analyzed. The strategists must mention the degree of tolerance limits between which the variance between actual and standard performance may be accepted. The positive deviation indicates a better performance but it is quite unusual exceeding the target always. The negative deviation is an issue of concern because it indicates a shortfall in the performance. Thus in this case the strategists must discover the causes of deviation and must take corrective action to overcome it.

Once the deviation in the performance is identified, it is essential to plan for a corrective action. If the performance is consistently less than the desired performance, the strategists must carry a detailed analysis of the factors responsible for such performance. If the strategists discover that the organizational potential does not match with the performance requirements, then the standards must be lowered. Another rare and drastic corrective action is reformulating the strategy which requires going back to the process of strategic management, reframing of plans according to new resource allocation trends and consequent means going to the beginning point of strategic management process. Correcting deviations in performance brings the entire management task into focus.

Managers can correct the performance by changing measures. Perhaps deviations can be resolved by changing plans. Management can eliminate the poor the performance by changing how things are done, by hiring new people, by retaining present workers, by changing job assignments, and so on. Correcting deviations from plans, therefore, can involve all of the functions, tasks, and responsibilities of operations managers. Operational control systems are intended to provide essential feedback so that company managers can make the necessary decisions and adjustments to implement the current strategy.

6.14 CHALLENGES OF STRATEGY IMPLEMENTATION

One of the major problems of strategy implementation as a result of resource planning is a failure to translate statements of strategic purpose, such as gaining market share into critical factors that will make the purpose achievable and ultimately achieved. This critical success factor analysis can be pursued as a start in resource planning. For example, a definite timetable might be needed for an organization trying to introduce, say a new product for Christmas. A detailed examination of the timing has to be done, if production and its marketing would be a success; as well as the allocation of funds for this undertaking. The problem here is that due to the non-uniformity in the times needed for the various activities, it is difficult to know where to start.

Scholes et al (1999) writes that the circularity of the problem is quite usual in developing an action plan, and raises the question of where to start with a market forecast, funds available, a production-level constraint, or what? The answer is that it may not matter too much where the starting point is, since the plan will have to be re-worked and re-adjusted several times. A useful guideline is to enter the problem through what appears to be the major change area. An organization planning new strategies of growth may start with an assessment of market opportunity. Someone starting a new business may begin with a realistic assessment of how much capital might have available.

6.15 RETAIL STRATEGY AUDIT

A retail audit systematically reviews a strategy and its execution on a regular basis. Strengths are emphasized and weaknesses are minimized or eliminated. It is a tool that opens up new option for strategic move in the market. It helps every marketer to find an optimum brand/product portfolio for target segment with finest communication vehicle and the flexible interiors for high product accessibility.

How to perform a Retail Audit?

The following points should be considered while performing the retail strategic audit:

- **Psychographics of consumers-** To Draft Retail value chain
- **Brand portfolio** –To fill retail value chain draft with brands and products
- **Retail format-** To fill the retail value chain draft with resources.
- **Service blue prints-** Connect the resources and brand/products in a retail value chain.

1. **Psychographic of consumers:** The value chain blue prints of retail must be designed with consumer psychographic in mind. The following questions must be answered while designing the value chain blue prints.
   - What is life style of your consumers?
   - How much time they plan for shopping?
   - What is the key driver for shopping (passing time, Money)?
   - Which vehicle they use usually to travel?
   - What is their disposable income?
   - Are they brand, price or value conscious or a subset of it (BPV Analysis)?

   The POC (Psychographic of consumers) helps to draft the value chain blue print for a retail business. Moving further will serve the purpose to check what brands /product mix we have to fill the draft of value chain.

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2. **Brand Portfolio:** It defines the brand /product span that we have to click the consumers. Every retail product line must have a combination of products for serving the two basic strategic purposes.
   - Penetration builders
   - Profit builders

   Most of the brand/product retail portfolio are based on proliferation but, if you see the effects in the longterm, it will cause *product placement insufficiency*. The symptoms can be concluded by the increasing footfall but stagnation of conversion rate.
3. **Retail Format:** It has to fill the value chain of retail by resources. The main objective of retail format should be to make the consumers process of shopping very cozy. The factors which affect the process are:
   - People involved
   - System Involved
   - Infrastructure (Showroom space, Parking space, interiors, sitting arrangement).
4. **Service Blue Prints:** It connects the brand or product with the resources for accessibility to consumers. Service is not only inside the showroom but also outside (parking facilitating and others).

Check Your Progress

State the Following are True or False

4. Social audit deals with the manner the providers of finance guarantee themselves of getting a fair return on their investment.
5. Changes in strategy lead to changes in organizational structure.
6. Operational control, the process of evaluating strategy, is practiced both after strategy is formulated and after it is implemented
7. Quantitative analysis takes up the financial parameters and the non-financial quantitative parameters, such as, physical units or time, in order to assess the performance.

6.16 SUMMARY

- Strategy is a management tool for achieving strategic targets. What is important to take note of is forming a strategy that starts with the analysis of the organization's internal and external situation.
- To institutionalize a business strategy, business leaders must also develop a system of values, norms, roles and groups that will support the accomplishment of strategic goals.
- Strategists should strive to preserve, emphasize, and build upon aspects of an existing culture that support proposed new strategies. Aspects of an existing culture that are antagonistic to a proposed strategy should be identified and changed.
- The administrative mechanisms of polices, procedures, rules and regulations support the working of the organization while it implements the projects, programmes, plans, and strategies.
- Corporate Governance is the interaction between various participants (shareholders, the board of directors, and company's management) in shaping corporation's performance and the way it is proceeding towards.
- Objectives and policies are stated largely in terms of products in an organization whose structure is based on product.

- The structural format for developing objectives and policies can significantly impact all other strategy-implementation activities.
- Leadership has been studied and researched for a number of years, resulting in numerous theories and models on universally accepted theoretical framework has been developed.
- Strategic control, the process of evaluating strategy, is practiced both after strategy is formulated and is implemented.
- Operational control is the process of ascertaining whether individual and work group role behaviours (performance) are congruent with the individual and work group role prescriptions.
- Strategy Evaluation is as significant as strategy formulation because it throws light on the efficiency and effectiveness of the comprehensive plans in achieving the desired results.
- The essence of strategic control is to continually assess the changing environment to uncover events that may significantly affect the course of an organization's strategy.
- A strategy audit involves assessing the actual direction of a business and comparing that course to the direction required to succeed in a changing environment.

6.17 KEY TERMS

- **Strategy:** It is the pattern of organizational moves and managerial approaches used to achieve organizational mission.
- **Corporate Governance:** Corporate Governance refers to the way a corporation is governed. It is the technique by which companies are directed and managed.
- **Operational control:** Operational control is concerned with individual and group role performance as compared with the individual and group role prescriptions required by the organizational plans.
- **Strategy audit:** A strategy audit involves assessing the actual direction of a business and comparing that course to the direction required to succeed in a changing environment.

6.18 ANSWERS TO 'CHECK YOUR PROGRESS'

1. It is the pattern of organizational moves and managerial approaches used to achieve organizational mission.
2. A programme is a broad term which includes goals, policies, procedures, rules and steps to be taken in putting a plan into action. Programmes are usually

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supported by funds allocated for plan implementation. An example of a programme is an R & D programme for the development of a new product.

3. Aspects of an existing culture that are antagonistic to a proposed strategy should be identified and changed.
4. False
5. True
6. False
7. True

6.19 QUESTIONS AND EXERCISES

Short Answer Question

1. What are the key essentials of crafting a good strategy?
2. Define corporate governance.
3. State the difference between strategic control and operational control.
4. Define strategy audit.

Long Answer Questions

1. Write a note on institutionalizing the strategy.
2. What are the Simon's seven strategy questions for better implementation?
3. Describe the organizational structure and systems in strategy implementation.
4. Discuss the role of leadership in strategy implementation.
5. Write a note on corporate culture.
6. What are the key techniques of strategic evaluation?

MODEL QUESTION PAPER

DISTANCE EDUCATION

MBA Degree Examination

Fourth Semester

Strategic Retail Management

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Time: Three hours *Maximum: 100 Marks*

PART A **(5 × 8 = 40 Marks)**

Answer any FIVE Questions

1. Discuss the meaning and concept of strategy.
2. Write a note on "Porter's Five Force Model".
3. Describe the internal environment and organizational capabilities in various functional areas.
4. What are the key strategies prepared at different levels of a business organization?
5. Write a note on BCG matrix.
6. Write a note multi vs single brand strategy.
7. What are the key product line strategies?
8. What are the Simon's seven strategy questions for better implementation?

PART B **(4 × 15 = 60 Marks)**

Answer any FOUR questions

1. What are the key steps involved in strategic management process?
2. Define PESTLE.
3. Discuss the concept of synergy and its relevance.
4. Explain the meaning of strategic alliance.
5. Describe the Hofer's Product Market Evolution and Shell Directional Policy Matrix.
6. Discuss the global trends in retail business.
7. What are the key techniques of strategic evaluation?

MBA

PAPER- 4B3

STRATEGIC RETAIL MANAGEMENT



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